



Due Diligence in Selecting an Auto-Enrolment Pension Provider

Department Title

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The LMC does not provide legal or financial advice. However, the Secretariat has been asked to provide some ideas on how practices can meet the 'due diligence' requirements when choosing an Auto-enrolment Pension provider. **The information below is intended to provide a starting point and some useful resources but if you have any concerns about your ability to meet the due diligence requirements, you should seek professional financial advice.**

What does due diligence mean in this context?

Employers have a responsibility to undertake a 'due diligence' exercise when they begin to implement a pension scheme. This involves 3 stages:

1. Be clear about exactly what you have to do to meet the auto enrolment regulations
2. Think objectively and systematically about what the practice and your employees each need from your auto-enrolment scheme
3. Look at a few feasible auto-enrolment scheme options before deciding which one will be best for your business and employees. (The list you have produced in stage 2 will allow you to assess the different options against the criteria you want to meet.)

You should keep a record of this exercise so that you can:

- Clearly explain to employees why you have chosen a particular scheme
- Prove in years to come that you went through a due diligence exercise before implementing your scheme

Stage 1 – Be clear about the regulations

The Pensions Regulator Website contains a wide range of useful information including a 'Duties Checker', progress timelines and checklists. Whilst not always easy to navigate, the information you need will be there somewhere.

<http://www.thepensionsregulator.gov.uk/en/employers/>

Stage 2 – Decide what you need from an auto-enrolment scheme

At this stage, it may be helpful to come up with a checklist which you can then use to evaluate different auto-enrolment schemes. There may be some 'essentials' that are non-negotiable and some other criteria that you can be more flexible about.

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Provided below is a sample checklist. It is not intended to be exhaustive but to give you a starting point for the types of criteria you may wish to include on your own list of requirements:

Essential Criteria

- Must be a 'qualifying' scheme for auto-enrolment
- Scheme must accept employers of our size/type
- Must integrate with our existing payroll system (in order to minimise paperwork and ensure that we are meeting our duties)
- Scheme provides good, clear information both for us as the employer and for the employee (not just at the sign-up point but throughout their membership of the scheme)
- Administrative costs (if any) to us as an employer are reasonable
- The charges to members of the scheme (or employees) are reasonable
- The scheme is managed via an online portal [Note: Many auto-enrolment schemes are managed online in order to keep costs down. This may or may not suit you. You may decide that one of your 'essential criteria' is to have a scheme that is **not** managed via an online portal.]

Desirable Criteria

- Scheme will sent out letters direct to employees to minimise paperwork we have to do in-house
- Scheme gives members some choice about how their money is invested
- Has flexibility built in so that different staff members can have different contribution levels if required
- UK Contact Centre for help with queries

In addition to your list of criteria, you will want to assure yourself that any scheme you choose is well run. Some indicators to consider would be:

- How many organisations are members of the scheme? (Does the size of the membership give you confidence?)
- How many individual members does the scheme have? (As above)
- What scale of funds do they have invested? (Does the size of their 'assets under management' give you confidence that this is an established and trusted organisation?)
- Who are the fund managers? (Is this a household name such as Legal & General or HSBC or a company you've never heard of?)

There are some independently awarded marks of quality that you can look for including:

Master Trust Assurance Framework (MAF)

This has been developed by the Institute of Chartered Accountants in England and Wales in partnership with The Pensions Regulator. One of its aims is to help employers find a well-run pension scheme which can be used to comply with their auto-enrolment duties. Schemes that have achieved the MAF are considered to be managed to a high standard by providing an independent review against an industry-standard benchmark of quality.

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At the time of writing, the following schemes have been independently reviewed to demonstrate they meet the standards set out in the master trust assurance framework:

- [National Employment Savings Trust \(NEST\)](#)
- [NOW: Pensions](#)
- [SEI Master Trust](#)
- [The People's Pension](#)

More information about MAF can be found here:

<http://www.thepensionsregulator.gov.uk/trustees/master-trust-assurance.aspx#s19297>

Pensions Quality Mark (PQM) Ready Schemes

Any scheme which is PQM Ready means that it has been assessed by the Pensions and Lifetime Savings Association as having good governance, low charges and clear member communications.

More information about the Pensions Quality Mark can be found here:

<http://www.pensionqualitymark.org.uk/index>

Details of pension schemes that are PQM Ready can be found here:

<http://www.pensionqualitymark.org.uk/pqmreadyschemes>

Defaqto Star Rating

Defaqto is an independent researcher of financial products, focused on providing intelligence to support better decision-making. Their **in-house team analyses between 40 and 100 features or benefits per product**. They independently rate products across more than 60 categories, giving each a 1 to 5 rating based on the quality and comprehensiveness of the features and benefits it offers. They are independent and unbiased.

The higher the Star Rating, the more comprehensive a product will be. Products rated 1 Star are a basic product, with a low level of features and benefits. A pension rated as 5 star is considered to be 'an excellent product with a comprehensive range of features and benefits'.

Find out more about Defaqto here:

<http://www.defaqto.com/>

Read about Star Ratings here:

<http://www.defaqto.com/star-ratings/>

To see the Star Ratings for different Auto-enrolment Pension Schemes, go to <http://www.defaqto.com/star-ratings/> then click on Auto-Enrolment (at the bottom of the page) then click on 'Auto-Enrolment (Trust Based Schemes)' at the top of the page.

The Pensions Regulator has also produced 'A quick guide to selecting a pension scheme for automatic enrolment' which you can view here: <http://www.thepensionsregulator.gov.uk/docs/employer-select-pension-automatic-enrolment.pdf>

Stage 3 – Consider a few feasible options for auto-enrolment schemes

From completing stages 1 and 2, you will have:

- a list of criteria that you are looking for in your new auto-enrolment scheme
- an idea of what to look for in terms of a scheme being well-run (e.g. MAF, PQM Ready and Defaqto Ratings)

It may be helpful at this stage to use a scoring sheet to directly compare several schemes against one another. A partly-worked example is attached. Your practice-specific criteria can be used for each column. A blank Excel version of the form is available from the LMC Secretariat on request for adapting to your own needs.

EXAMPLE: Comparison of Auto Enrolment Pension Providers

Assessment Criteria	Name of Pension Scheme 1	Name of Pension Scheme 2	Name of Pension Scheme 3
Basic Criteria			
Qualifying scheme for auto-enrolment	1	1	
Would we be accepted?	1	1	
Independent Quality Rating			
Achieved MAF	1	0	
PQM Ready	1	0	
Defaqto 5 Star Rated	1	1	
Own Assessment of financial stability			
Satisfied with scheme size?	1	1	
Satisfied with funds in management?	1	1	
Satisfied with fund managers?	1	1	
	Notes: 9000 Corporate Accounts employing over 2,800,000 staff; £2.3 billion assets under management; Funds managed by Legal & General Investment Management.	Notes: £5.5 billion assets under management; 2400 organisations and 200,000 members	
Scheme Administration & Management			
Scheme integrates with our existing payroll?	1	0	
Can manage through online portal?	1	1	
Will send letters to employees for us?	1	0	
Has UK contact centre for queries	1	1	
Flexibility to set different contribution levels?	1	1	
Employees have option to make choices about how their money is invested?	1	1	
	Notes: Do most but not all employee communication.	Notes: Unable to obtain reinsurance about compatibility with payroll. This could cause a real admin problem.	

Assessment Criteria	Name of Pension Scheme 1	Name of Pension Scheme 2	Name of Pension Scheme 3
Communication			
Website has good quality information?	1	1	
Information materials/letters good quality?	1	1	
Evidence of high quality information for members about their investment?	1	1	
Evidence of high quality information for employers about their scheme?	1	0	
	Notes: Website packed with really helpful resources.	Notes: very little information about support for employers. Have some concerns.	
Charges			
Are set up/admin charges for employer reasonable?	1	0	
Are management charges for employee reasonable?	1	1	
	Notes: No charges to employer for set up or admin. 0.5% of fund value annual management charge for employee.	Notes: 0.45% of fund value annual management charge to employees. One-off administration cost of £500 payable by the employer + additional £300 for suite of communication templates if needed.	
Total Score (from total possible of 20)	20	14	



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