HM Revenue & Customs

Research report

New State Pension

To understand employers' knowledge of recording the Scheme Contracted out Number (SCON) on their Full Payment Submission.

September 2014

About PT Change

PT Change is a Directorate within HMRC's Personal Tax (PT) line of business and is principally concerned with overseeing and bringing together for PT a Portfolio of Programmes which will help transform HMRC business, led by customer understanding.

The PT Change Portfolio will deliver all the changes to processes, structure and systems needed to deliver better services to our PT customers and enable savings from within PT.

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Glossary

New State Pension	The new State Pension will provide a simple flat rate amount that ends the current two-tier system of basic and additional State Pension for those individuals who reach state pension age on or after 6 April 2016. The full level of the new State Pension will be set above the basic level of means-tested support and will depend on an individual's National Insurance record.
Scheme Contracted Out Number (SCON)	When an employer starts a contracted-out pension scheme they receive a contracted-out certificate from HMRC. The Scheme Contracted Out Number is shown on the certificate.
Full Payment Submission (FPS)	Most employers must report payroll information online to HMRC when or before any employee is paid. This report is known as the Full Payment Submission.
Defined Benefit Pension Scheme (DB Scheme)	Under a Defined Benefit pension scheme, the amount of pension an individual receives when they retire doesn't depend on the size of the pension pot. Under this arrangement an individual would be promised a certain amount of pension at retirement. These schemes are sometimes also known as 'final salary' or 'salary-related' schemes.
Temporary or Dummy SCON	If employers cannot find the correct SCON for their employees and the FPS is rejected, HMRC will provide a temporary valid SCON via the automatic failure error message for a limited period of time. This will allow employers to use this SCON to immediately resubmit the FPS. From April 2015 these cannot be used anymore.
Real Time Information (RTI)	A system requiring employers to submit PAYE information to HMRC every time they pay their employees instead of at the end of the year.
Employer Bulletins	HMRC publishes the Employer Bulletin six times a year to give employers and agents the latest information on topics and issues that may affect them. The Employer Bulletin provides pointers to new procedures and initiatives which may be of interest and contains direct links to more detailed information allowing the reader to explore topics further.

Research requirement

On 6 April 2016, a new State Pension will be introduced, replacing the current two-tier system of a basic and an additional (or second) state pension with a single-tier State Pension.

A significant change that is being introduced under the new State Pension is the removal of contracting out status as of 6 April 2016. Historically, employers could choose to set up a company pension scheme (or schemes) to provide a pension which replaced all or part of the additional state pension. Employees who join a contracted out scheme receive a National Insurance rebate, as do their employers. Once the new State Pension takes effect, such employees will pay the same rate of National Insurance contributions as those who were not previously contracted out; similarly their employers will no longer receive a National Insurance rebate for these employees.

To ensure entitlements are correct moving forward, and that NI records are updated accurately, HMRC needs to know which previously contracted out employees belong to which contracted out schemes. As of 6 April 2014, it became mandatory that employers report the relevant Scheme Contracted Out Number (SCON) on their Real Time Information (RTI) Full Payment Submissions (FPS). This will help HMRC to identify the scheme to which an individual belonged. It was HMRC's responsibility to ensure that employers, representative groups, and pension providers were aware of the initial changes required to their payroll systems by April 2014, that they understood their obligations in relation to SCON reporting, and that they were able to meet them.

Research was required to: help HMRC understand employers' and payroll providers' understanding of the new SCON reporting requirement; evaluate the effectiveness of communications that have already been issued on this matter; and establish how these might be improved in terms of impact and influence on behaviour.

When the research took place

Fieldwork took place between 3rd and 31st July 2014.

Who did the work

The research was conducted by Research Works Ltd

Method, Data and Tools used, Sample

The research comprised 50 face to face and telephone depth interviews with employers and 9 depth interviews with payroll providers. All face to face interviews were conducted in the respondent's place of work.

The respondents recruited held a variety of roles, but all were the person responsible for implementing changes to payroll and/or the company pension scheme. Some, often in smaller organisations that did not have dedicated payroll or pension functions, were in 'generalised' roles, although all had payroll and pensions within their remit. These typically included roles such as Office Manager, Head of Administration or Admin Manager, HR-related roles (HR Advisor, HR Manager, Head of HR), Finance Director, Operations Director, CFO or Managing Director. Others, generally in larger organisations, were in roles that were specifically focused on payroll or pensions. These roles included Payroll Assistant, Payroll Manager, Tax and Pensions Manager, Head of Pay and Pensions, Payroll and Pensions Manager.

Fieldwork took place across England, Wales, Scotland and Northern Ireland. The sample structure for employers was as follows:

Depth Interviews with Employers	
Large employers (250+)	14 x depth interviews
Medium employers (50-249)	13 x depth interviews
Small employers (10-49)	13 x depth interviews
Micro employers (0-9)	10 x depth interviews
Total	**50 depth interviews**

The following additional recruitment criteria were applied:

- All employers offered a Defined Benefit pension scheme to employees that was contracted-out and open to future accruals
- A mix of employers who had their payroll in-house and outsourced, was achieved. Of those who had their payroll in-house, a mix of payroll software packages was achieved
- A range of business sectors was included, including public sector and charities

The sample structure for payroll providers was as follows:

Depth Interviews with Payroll Providers	
Accountants or bookkeepers who run payrolls	4 x depth interviews
Payroll Bureaux / Full-service Payroll Management Companies	5 x depth interviews
Total	**9 depth interviews**

The following criteria were taken into account during the recruitment process:

- All had at least one client on their books who had a contracted out Defined Benefit pension scheme that was open to future accruals
- A range of payroll companies who work with micro, small, medium and large employers were included, but with a particular emphasis on those who work with micro and small employers
- Payroll companies had clients in a range of sectors

All respondents were required to look at stimulus material during the interview – in the case of telephone depths, this was emailed in advance.

Main Findings

It should be emphasised that qualitative research samples are purposive and quota-driven in nature; they have no statistical validity or reliability. The purpose of qualitative research is to give generalisable indications of the drivers underlying behaviour and attitudes, by exploring responses in greater detail and depth. Use over decades has shown that qualitative research does have genuine predictive power; however it has no quantitative accuracy in terms of identifying proportions of populations holding stated views.

The key findings of the research can be summarised as follows:

Two clear respondent types emerged
- Those who had 'hands-on' payroll operative roles, and formed the greater part of the sample, were highly process-driven and tactical individuals, generally passive in their response to changes to payroll submissions. In the context of reporting the SCON, this manifested as showing little interest in the background or context to the change in requirements, but merely a desire for instruction around this very specific task to be executed.

- This group depend heavily on others to inform them of changes that affect them, rather than seeking information out for themselves. Therefore, it is imperative that information is pushed to this audience, and via the intermediaries that they most depend on – their payroll providers, or their payroll software providers.

- The other group accounted for a lesser part of the sample, and displayed a very different approach. Typically those in dedicated pensions or HR roles, or senior payroll managers who were managing teams of payroll operatives, this group had a noticeably more strategic and proactive approach. Regarding the mandate of reporting the SCON, this group was already well informed of the background and context around this change, and displayed an appetite for information around all such changes that would affect their organisations. This was driven by their requirement to input into strategic decision-making, present information to senior management and answer staff questions about changes to their National Insurance or pension contributions. Similarly, as they were typically 'career' pensions or payroll professionals, there was an innate interest in keeping up with developments in these worlds. This group demonstrated that they are resourceful and proactive in their information gathering, and as such have set up a network of multiple information sources to inform them of relevant changes that will impact upon them.

Sourcing the SCON number

- Sourcing the SCON was perceived as a basic administrative task. Changes to RTI reporting requirements are considered routine; this was regarded as one such routine change. None of the employers in the sample had any difficulties with sourcing their SCON, and none said that they had used the temporary or 'dummy' SCON. In most cases, employers had their SCON to hand internally. If they did not, the number was easily sourced via a phone call or email to their pension provider, trustee or pension administrator.

- Employers were entirely confident that the SCON reported was the correct number. Some claimed they regularly report the SCON elsewhere (e.g. to The Pensions Regulator) and believed it was a fair assumption that it was the same number that was required on the FPS. For some, the absence of any immediate notification that the number was incorrect, or the fact that the FPS was not rejected indicated to them that the number entered was correct. There was no expectation amongst employers that it might subsequently be highlighted to them at a later date that the SCON submitted was incorrect.

- Only a very small number of employers in this sample (perhaps two or three) had been required to report multiple SCONs for multiple schemes. This also did not prove problematic, because their payroll systems were already set up to distinguish different schemes and so all that was required was to attach the relevant SCON to the relevant employee.

- Only one, very large, employer had been required to report multiple SCONs per employee, and had experienced difficulties. He claimed that the RTI file does not allow him to report multiple SCONs per person and that there is a field to enter one SCON only. He had therefore only entered one SCON per person, but already anticipated this would cause confusion later when the GMP reconciliation was conducted.

Sources of awareness
- There was a high degree of dependence on the payroll software provider or payroll bureau or management company to inform employers of changes such as SCON mandation. Similarly, there was an extremely high degree of trust that payroll software providers and bureaux would alert employers to such changes. Employers assumed that payroll providers communicate directly with HMRC about changes, and believed it is their responsibility to then cascade this information to the employer.

- To this end, the majority of employers were well prepared for the requirement to report their SCON, having had the requirement flagged to them (in most cases) in early 2014 when payroll patches incorporating this change were issued by software providers. Only one or two initially became aware of the change when the system requested the SCON number on the April 2014 pay run.

- Medium and large employers in particular benefited from having a wide range of advisors and professional bodies to inform them of changes such as the end of contracting out and the mandation of SCON reporting, making them a relatively 'low risk' audience when it comes to awareness of legislative changes. Micro and small employers, however, did not have the time or budget to build strong communication networks, and as such depended entirely on their payroll software provider or bureau to tell them what they needed to know.

- Those with a more strategic payroll perspective (e.g. senior payroll managers) appeared more likely to be the audience for HMRC's Employer Bulletins. While this was not a core source of information, they reviewed the Bulletins to ensure they were keeping abreast of the broad picture. Often those in payroll 'operative' roles showed little interest in informing themselves of the background to changes that may affect what is entered into the FPS, depending instead on the payroll software company to tell them what they needed to know.

The research concluded the following:

The role of payroll software providers, payroll bureaux and payroll management companies
- It is imperative that HMRC continues to communicate with payroll audiences and ensures that they are encouraged to cascade such information down to their clients. All evidence in this study shows that this system is indeed working effectively currently.

Future communications – messaging and channel
- When HMRC wishes to communicate in future about further changes relating to the end of contracting out, it is important to recognise that two clear employer audiences have emerged, with different information needs and channel preferences. We highlight the following for each audience type going forward:

    - For those with a more strategic view, often in pensions or HR roles, or senior payroll managers (typically in medium or large organisations): the HMRC Bulletins work well for this audience, as they will make the effort to read them to keep abreast of changes, albeit not necessarily immediately after publication. The messaging that is of interest to this audience is the background to changes around contracting out and the 'wider picture' of the impact of contracting out (how it will impact on their businesses), and the Employer Bulletins currently deliver against these criteria. Links to 'how to implement' and specific action points will be of use, but not the primary focus of their interest, as they have dedicated payroll operatives to actually enforce the changes.

    - For tactical operatives, usually those processing and running payrolls: the key to reaching this group is to communicate with them via their payroll software providers or payroll bureaux. This is a passive group who will not actively seek out information for themselves, as they have neither the time nor the inclination to do so. This group does not want to be bogged down with the background and implications of changes; their needs run solely to being informed of required actions and associated timelines. For those with a personal interest in finding out more contextual information, links to further reading will suffice.

- For payroll providers: their two key sources of information are their professional bodies (CIPP or the Institute of Certified Bookkeepers), from whom they receive information via their websites, emails or newsletters, and HMRC, from whom they receive information via email notifications and newsletters. One or two smaller payroll providers received the Employer Bulletins, and in a similar way to employers, used them to stay appraised of high-level changes to the landscape, rather than for guidance on specific processes. Currently, these channels of information appear to be working effectively.

Future communications – timings
- Regardless of audience or channel, it is important that HMRC synchronises communications relating to the end of contracting out and the RTI with the annual payroll timetable. Employers receive their patches and upgrades to their software in January and February in readiness for the year end, and this is when they expect to hear about important changes, so they have time to plan and test their systems, and source any required information. March and April is a difficult time to attract employers' attention. Many employers still have their company year end at this time and thus are very busy.