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Pension Auto Enrolment: An Employer's Guide

Your concise guide to the key facts and action points

Auto Enrolment is the statutory requirement on an employer to:

- Have an appropriate pension scheme
- Arrange for the workforce to be automatically
- Pay pension contributions into the scheme

When these requirements will need to be satisfied will be determined by reference to an employer's 'staging date'.

Prior to the staging date,

- consider how many workers will be required to be auto enrolled in a pension scheme
- estimate how much auto enrolment is going to cost you as an employer
- choose an appropriate pension scheme
- consider how you are going to communicate with your workers about auto enrolment
- decide who will process your calculations and liaise with your pension provider

When do I have to start auto enrolment?

Determine your staging date

To find out your staging date, go to:

http://thepensionsregulator.gov.uk/employers/staging-date.aspx

This tool is designed for Employers with only one PAYE scheme. There are also some circumstances where entering your PAYE reference into the tool won't necessarily provide your staging date. See below:

http://thepensionsregulator.gov.uk/employers/exceptions.aspx

Staging date and postponement

It is possible to push back (by up to three months) the time pension contributions are required to be paid by using postponement. However it does not push back many of the tasks that you need to complete by the staging date. Please see the Postponement section later in this guide.

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How much is Auto Enrolment going to cost?

1. Initial analysis of your workforce

The costs to you of auto enrolment will depend on the type of workers you have in your business. Many of the workers will be required to be automatically enrolled but some will not. An initial analysis will be required.

A business which uses the services of casual workers, the very young or those who continue to work after the State Pension age will need to spend some time analysing its workforce. A business which only employs salaried staff will have an easier task.

All individuals who are defined as 'workers' must be considered. Workers includes all employees but may also include people who although not employees, are entitled to core employment rights such as the National Minimum Wage. Individuals in this category include some agency workers and some short-term casual workers.

There are three categories of workers: **eligible** jobholders, **non-eligible** jobholders, and **entitled** workers.

An **eligible** jobholder is a worker who is:

- aged between 22 years and the State Pension age
- earning over the earnings trigger. The level of the earnings figure is reviewed annually and is set for each tax year (6 April to 5 April). The annual figure is £10,000 for 2014/15 and 2015/16.
- working or ordinarily working in the UK
- not already in a qualifying pension scheme

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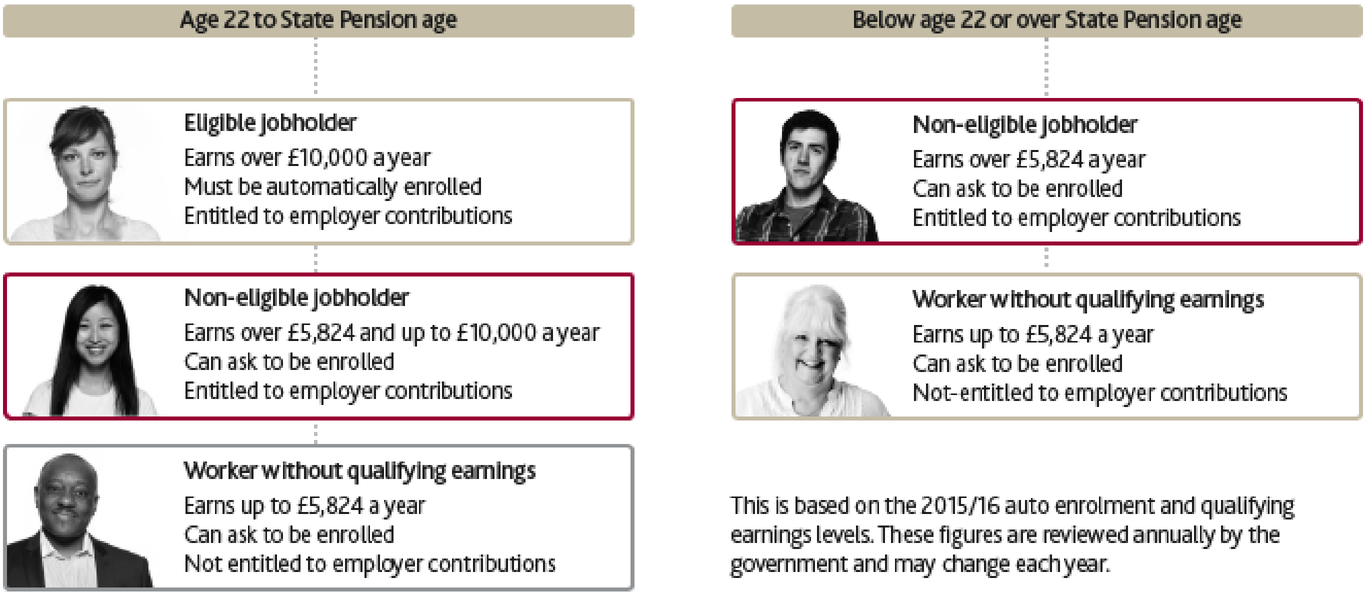
Most workers will be eligible jobholders unless the employer already has a qualifying pension scheme. These are the workers for which automatic enrolment will be required.



An **eligible** jobholder has the right to opt out of auto enrolment if they wish. This means they will not be required to pay pension contributions but they will lose the benefit of the employer paying pension contributions as well.

Other workers (**non-eligible** jobholders) may have the right to 'opt in' (i.e. join a scheme) and therefore be treated as eligible jobholders. **Entitled** workers are entitled to join the scheme but there is no requirement on the employer to make employer contributions in respect of these workers.

2. Minimum contributions

As part of the automatic enrolment process, employers will need to make contributions to the pension scheme for **eligible** jobholders. In principle, contributions will be due from the staging date.

All employers will need to contribute at least 3% on the qualifying earnings for eligible jobholders. However, to help employers adjust, compulsory contributions will be phased in, starting at 1% (if the staging date is before 30 September 2017) before eventually rising to 3%.

There will also be a total minimum contribution which will need to be paid by workers if the employer does not meet the total minimum contributions. If the employer only pays the employer's minimum contribution, workers' contributions will start at 1% of their qualifying earnings, before eventually rising to 4%. An additional 1% in the form of tax relief will mean that there is a minimum 8% contribution rate.

The key requirement for the employer to note is the prospective cost of 3% of qualifying earnings from October 2018.

3. Qualifying Earnings

Earnings cover cash elements of pay including overtime, bonuses and statutory payments such as Statutory Sick Pay. Minimum contributions are not calculated however on all the earnings.

Contributions will be payable on earnings between a lower and a higher threshold. The earnings between these amounts are called qualifying earnings. The lower threshold is £5,824 and the higher threshold is £42,385 for 2015/16. The thresholds are reviewed by the Government each tax year.

Note that the thresholds have to be considered for each pay period, so if you pay workers monthly, it is the monthly equivalent of the annual thresholds that need to be considered (i.e. lower and higher thresholds are £486 and £3,532 per month for 2015/16).

Consider who will be your Pension Provider

Employer Duties

Your responsibility as an employer is to have an appropriate pension scheme. If you want advice to help you make a choice on a scheme you will need to use an Independent Financial Adviser or pension consultant.

To be a qualifying auto enrolment scheme, a scheme must meet the qualifying criteria and the auto enrolment criteria.

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Qualifying Criteria

The main part of the qualifying criteria requires the pension scheme to meet certain minimum standards, which differ according to the type of pension scheme. Most employers will want to offer a defined contribution pension scheme. The minimum requirements for such schemes are a minimum total contribution based on qualifying earnings, of which a specified amount must come from the employer.

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Auto Enrolment criteria

To be an auto enrolment scheme, one of the requirements is that the scheme must not contain any provisions that require the jobholder to express a choice in relation to any matter, or to provide any information, in order to remain an active member of the pension scheme.

This means, for example, that the pension scheme has a default fund into which the pension contributions attributable to the jobholder will be invested. The jobholder should however have a choice of other funds if they want.

You can choose an appropriate pension scheme yourself. There are three schemes that have been established to cater for the employer of a small or medium sized business.

National Employment Savings Trust (NEST)

NEST is a master trust that has been set up by the Government to ensure that employers can access a pension scheme to help them comply with auto enrolment. NEST has a public service obligation, which means it must accept all employers who wish to select it as their auto enrolment scheme provider.

NOW Pensions

Now Pensions is relatively new to the UK but has over 40 years' experience in running a low cost auto enrolment scheme in Denmark.

The People's Pension

The People's Pension is also new but it is administered by B&CE, managers of the largest stakeholder pension in the UK.

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Communicating with your workers

There are some communications that you, as an employer, must send to your workers. These need to be within certain time periods after the staging date. For example an **eligible jobholder** must be given certain information by the employer within six weeks of the staging date.

But you may wish to consider other communications to your workers before the staging date.

The information that must be sent to workers must be sent in writing (this can be sent by email). There is specific information that must be sent to different types of workers - **eligible jobholders**, **non- eligible jobholders** and **entitled workers**.

Other Communications

It will be a good idea to issue other communications to your workers in order to reduce the number of queries you may have to deal with.

For example you may want to answer your workers' questions by providing information in the format of ‘frequently asked questions’ at the same time as the letter. Posters could also be displayed at the workplace giving some key information about auto enrolment.

When workers have been automatically enrolled they may need to be reminded about why there is a change in their payslip.

There are some things that an employer cannot do

An eligible jobholder has the right to opt out of auto enrolment if they wish. So the letter to this type of worker must include details of how they can opt out. However, you cannot encourage the worker to opt out.

For example, an employer cannot offer a higher salary to an employee who opts out or deny a promotion to an employee who has not opted out.

Enrolment of workers and payment of contributions

If **postponement** (see below) is not being used, the staging date will be the point from which an eligible jobholder will be automatically enrolled. This means that:

- Workers will need to be assessed by reference to their age on the staging date and their pay in the relevant period
- Pension contributions are due from the employer and employee from the staging date

Other types of worker may have a right to join in the scheme from the staging date. This is why the pension scheme and the basis of calculation of contributions needs to be established before the staging date.

Monitoring of workers after the staging date

There is a need for every pay period after the staging date to monitor information about your workers as their categorisation may change.

What is Postponement?

You are allowed to use postponement to push back the time you need to automatically enrol your workers. The maximum period is three months. Essentially postponement is the deferral of the assessment of a worker to a later date and therefore the deferral of whichever employer duty that may apply in respect of that worker. It does create some extra work in that information must be given to your workers about postponement within six weeks of the staging date. Also a worker still has the right to opt in to the scheme from the staging date.

However it can have advantages and should certainly be considered where the employee's auto enrolment date would not otherwise coincide with the start of a pay reference period. Aligning a worker's automatic enrolment date with a pay reference period makes the calculation of pension contributions in the first pay period considerably easier.

Registering with The Pensions Regulator and keeping records

Registering with the Pensions Regulator

The Pensions Regulator was established to regulate work based pensions.

An employer must register with The Pensions Regulator within five months of the staging date (or the last day of the postponement period(s) where postponement was used at staging). In essence the registration process requires the employer to:

- confirm the correct auto enrolment procedures have been followed and

- provide various pieces of information such as the number of eligible jobholders enrolled.

Keeping Records

Finally, an employer must keep records which will enable them to prove that they have complied with their duties. Keeping accurate records also makes good business sense because it can help an employer to:

- avoid or resolve potential disputes with workers

- help check or reconcile contributions made to the pension scheme.

Terms used in this guide

Earnings trigger

The earnings trigger determines who gets automatically enrolled. The trigger changes each tax year and is broken down by pay frequency, e.g. monthly and weekly.

Non-eligible jobholders

These include workers who are either:

- aged at least 16 and under 75
- working, or ordinarily working, in Great Britain, and
- have qualifying earnings payable by the employer in the relevant pay reference period above the lower earnings level (£5,824 for 2015/16) but below the minimum earnings trigger (£10,000).

or

- are aged at least 16-21 or between state pension age and under 75
- are working, or ordinarily working, in Great Britain, and
- have qualifying earnings payable by the employer in the relevant pay reference period that are above the earnings trigger.

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Entitled workers

These are workers who:

- are aged at least 16 and under 75
- are working, or ordinarily working, in Great Britain, and
- have qualifying earnings payable by the employer in the relevant pay reference period that are below the lower earnings level.

Qualifying earnings

Qualifying earnings is the total of salary and wages, commission, bonuses, overtime, Statutory Sick Pay, Statutory Maternity Pay, Statutory Paternity Pay and Statutory Adoption Pay.

Pay reference period

A pay reference period is used for measuring a worker's earnings for establishing the type of worker and calculating pension contributions for that period. There are two definitions of a pay reference period but the easiest to use will generally be one that is aligned to tax weeks and months used for Pay As You Earn.