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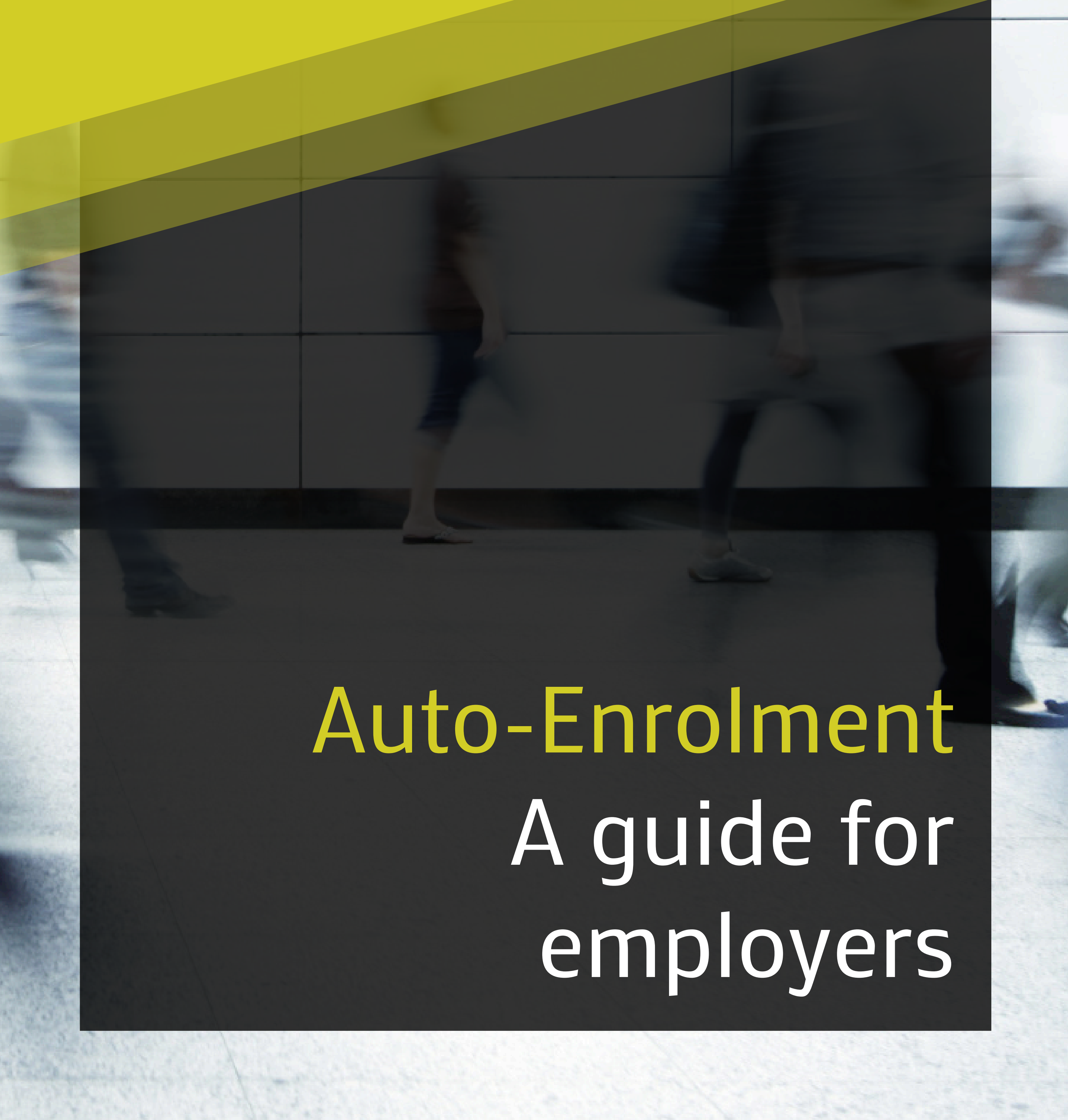

Auto-Enrolment

A guide for employers

Contents

Introduction

A change in pension legislation means that every employer in the UK must now help their employees to save for their retirement. Known as 'Automatic Enrolment', the introduction of that legislation means that action is required by all employers to ensure they have a workplace pension scheme in place and that their scheme meets strict rules and standards.

Acting on figures relating to hardship in retirement, the Government's scheme was implemented in October 2012 in order to ensure employees have enough money for their retirement. The legislation means that employers must 'automatically enrol' all eligible employees into suitable and compliant workplace pension schemes in order to supplement their state pensions and give them a better chance of living a retirement adequately supported by their savings, with less reliance on state benefits.

For employers, automatic enrolment - or 'auto-enrolment' - presents several challenges. For those with a pension scheme already in place, there will have to be a thorough audit, to assess whether their scheme meets the auto-enrolment rules. For those without a current pension scheme, it may be easier to ensure any new scheme is compliant, but there will certainly still be challenges in practical implementation and in informing employees exactly what they have been signed up for.

This guide is intended as a helpful resource if your business is facing the challenge of implementing auto-enrolment over the next few years. It starts by answering some top-level questions you might have about auto-enrolment and ends with an easy reference glossary to remind you of some key terms. In between, there's some detail on elements of auto-enrolment that you might be particularly concerned about, such as when you can expect the rules to apply to your company, and how much this could cost you in pension contributions.

I hope you find the guide a useful reference point for what could be a difficult time for employers, but please do get in touch if I can provide any further information about auto-enrolment, or if you have any questions about any of the content I have provided here.

Best wishes,

Damien Rylett
Managing Director
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Staging dates

It is estimated that prior to auto-enrolment, 6,000 pension schemes were set up each year by the pensions industry. The peak of auto-enrolment is expected to be October 2017 when an estimated 132,000 businesses will reach their staging date and be required to have a pension scheme set up. (Source: The Pensions Regulator)

With that level of demand, is your current pension provider going to be able to deliver everything you need to be compliant and indeed are they still going to want to keep your business?

Unfortunately, there is nothing in the legislation that says pension providers must accept your employees or even your business. Remember it is the responsibility of the employers to be compliant!

Your staging date is the date from which you are expected to have a compliant pension scheme in place, although you do have until four months after the date to register your scheme with The Pensions Regulator (TPR).

Staging dates are allocated based on company size, with many companies receiving a staging date at some point in 2014 or beyond. The largest employers have already had their staging date, which began being assigned in October 2012.

The table below details company size and staging dates until April 2015. Companies with between 1 and 50 employees will receive a staging date at some point between then and 2018.

Whilst your staging date is the latest date you must have a compliant scheme in place, the advice to businesses is to start preparing as soon as practical for your company, with The Pensions Regulator recommending 12-18 months before your staging date.

Staging Dates by PAYE scheme size or reference

PAYE scheme size or refeenece	Staging date	PAYE scheme size or refeenece	Staging date
120,000 or more	1 October 2012	500 - 799	1 November 2013
50,000 - 119,999	1 November 2012	350 - 499	1 January 2014
30,000 - 49,999	1 January 2013	250 - 349	1 February 2014
20,000 - 29,999	1 February 2013	160 - 249	1 April 2014
10,000 - 19,999	1 March 2013	90 - 159	1 May 2014
6,000 - 9,999	1 April 2013	62 - 89	1 July 2014
4,100 - 5,999	1 May 2013	61	1 August 2014
4,000 - 4,099	1 June 2013	60	1 October 2014
3,000 - 3,999	1 July 2013	59	1 November 2014
2,000 - 2,999	1 August 2013	58	1 January 2015
1,250 - 1,999	1 September 2013	54 - 57	1 March 2015
800 - 1,249	1 October 2013	50-53	April 2015

Smaller employers or new employers have staging dates from 2015-2017

Choosing a scheme

Choosing a pension scheme that is auto-enrolment compliant is obviously vital, but it is also worth remembering that not all pension schemes were created equal. Starting to investigate schemes at the earliest possible opportunity will give you the chance to choose a scheme that is not only compliant but which is run exceptionally well, minimises your workloads and provides value for money for both you and your employees.

Elements to look for in a pension scheme include the following:

Most pension providers are now clearly labelling schemes as 'auto-enrolment compliant,' but if this is not clear in their literature then it is worth specifying that you are only interested in those relevant schemes.
Auto-enrolment schemes need to be tax registered in the UK, feature the ability to add new joiners without their permission, accept pension contributions from the first pay instance and allow both employers and employees to make the minimum legal contributions.

Most employers creating a workplace pension scheme for the first time will opt for a defined contribution (DC) scheme, meaning that you and your employees pay in a specific amount towards a pension each month. Other types of scheme can be used and you should seek advice on these from relevant providers or an adviser if you wish to consider them.

It is important to provide high quality information to the people who will be the pension scheme members, i.e. your employees. Good material which summarises the scheme in simple language is vital for them, many of whom may have little experience in this area. Unlike traditional pension scheme literature, automatic enrolment marketing material will not need to focus on encouraging people to join a scheme, but instead will need to communicate the benefits of not opting out. Clear details of all the processes involved will also be required so that employees feel in control of everything that is happening with their pay and pension.

Schemes will have a default investment option for those members who don't wish to make their own investment choices. The vast majority of your members will take advantage of the default investment strategy on offer, so it is important that you and they are comfortable with what it offers.

The scheme will have various costs and charges which will be taken from your employee's savings. Because of this, it is vital that you ensure you are comfortable with these costs and that you feel they provide value for money. Schemes that offer a greater degree of reporting or online portals may cost more but if you feel the advantages of these benefits are worth it to your employees, it may be worth pursuing these schemes.

Eligible employees and your responsibilities

It is likely that for most employers, the majority of your workforce will need to be automatically enrolled into your pension scheme. However, your employees will fall into one of several different groups, which affects how you will need to conduct the enrolment process.

TPR has defined all potentially eligible employees as 'workers' and then further divided this group into three sub-groups; entitled workers, eligible jobholders and non-eligible jobholders, as detailed in the table below. As an employer you have a duty to communicate information about auto-enrolment to all of your workers, regardless of which sub-group they are a part of.

Eligible jobholders

Eligible jobholders must be automatically enrolled into your workplace pensions scheme.

Non-eligible jobholders

Non-eligible jobholders do not need to be automatically enrolled into your workplace pension but they can choose to opt in to the scheme, if they wish to start saving. The main factor for a worker being considered non-eligible is age, with workers from the age of 16 to 21 and from State Pension Age (SPA) to 74 falling into this category.

Entitled workers

Entitled workers do not need to be automatically enrolled, but do have a right to opt in to your workplace pension scheme if they choose to. Entitled workers are workers who earn below the Standard Personal Income Tax Allowance.

Contribution rates

The contribution rate is the percentage of pensionable pay which both employers and employees must pay into their new pension. The goal for the minimum rate of pension contribution is a total rate of 8% of a specified band of earnings, of which a minimum of 3% must come from the employer. There are however three alternative contribution calculations that may be selected if they are more appropriate for the employer.

This rate, however, does not come into force until February 2018, with TPR staging contribution rates during the first few years of auto-enrolment to ease employees and employers into workplace pension saving. The minimum contribution rates in the meantime are shown in the table below:

1st October 2012 - 30th September 2017	2%, of which 1% must come from the employer
1st October 2017 - 30th September 2018	5%, of which 2% must come from the employer
From 1st October 2018 on an ongoing basis	8%, of which 3% must come from the employer

Compliance and The Pensions Regulator (TPR)

TPR has overall responsibility for overseeing automatic enrolment implementation in the UK. If you fail to create an auto-enrolment scheme and enrol your employees into it, or TPR believes that you are actively avoiding contributing to your workplace pension scheme, then it has a range of measures to encourage compliance. These begin with a non-compliance notice but can escalate into very significant fines for every day a company fails to implement a scheme.

It is important for businesses to remember that automatic enrolment is now a legal part of employment within the UK.

Auto-enrolment FAQs

'What are staging dates?'

The date by which you must have an auto-enrolment scheme in place. This will depend on how many employees you have.

'When does auto-enrolment come into force?'

Large employers were issued with the very first staging dates in October 2012, and between then and 2018, all employers will need to have a compliant scheme in place.

You can get an approximate idea of when your staging date will be by looking at The Pensions Regulator's (TPR) published tables. TPR will write to you to confirm your staging date closer to the time, but the tables allow businesses to plan in advance. See our section dedicated to staging dates for more information.

'Who is The Pensions Regulator (TPR)?'

TPR is the body in charge of administering the rules of workplace pension legislation in the UK and therefore the rules governing auto-enrolment. It provides resources for employers and employees and will have broad compliance control, ensuring all businesses have a suitable scheme in place by the time of their staging date.

'When do I need to act?'

You certainly need to act in advance of your staging date, so the best possible advice is to act right now. Begin to gather the information you need to put a pension scheme in place or to assess your current scheme. Those who plan now will find themselves with an easier task to meet their staging date, whilst those who leave planning until that date could end up struggling to have a scheme in place.

'What if I already have a pension scheme?'

As mentioned, it is unlikely that most current pension schemes will have been set up to meet all of the rules governing auto-enrolment. This means that an assessment of the scheme is vital and some changes may be required.

'What if I just do nothing?'

Auto-enrolment is a compulsory piece of legislation, meaning that all businesses must ensure they have a compliant scheme in place. Failure to do so by your staging date will initially trigger various compliance warnings and advice from TPR, but the regulator also has the power to fine non-compliant companies, and these fines can be very significant amounts.

'Can we implement an auto-enrolment scheme ourselves, without any outside help?'

Yes, you can. There's no obligation to seek outside help, especially if you have the in-house time and expertise to carry out the research and implement a new scheme. Again, the best advice is to start early, giving your team plenty of time to do the necessary work.

'What if my employees don't want a pension scheme?'

You must have a pension scheme in place and you must auto-enrol employees into it. If they decide they do not wish to join then they may "opt-out". As an employer you must keep records to show that they were opted-in and that they decided to opt-out. The process must be then repeated again three years after the employee opted-out.

Glossary

Automatic enrolment (auto-enrolment)

The process by which employees are automatically placed into a company pension scheme by their employer.

Contribution rates

The percentage of an employee's pay that they and/or the employer contribute to a pension scheme.

Defined contribution (DC) scheme

A type of pension scheme where the pension fund is made up of contributions by the members and their employers. (Also known as a Money Purchase Scheme.)

Opt-out

Employees who must be automatically enrolled have the option to 'opt out' of the scheme and thus avoid paying into a pension. Any eligible employee who opts out must be automatically enrolled again after a period of three years. Employers are strictly prohibited from encouraging employees to opt out.

Staging date

The date by which The Pensions Regulator has informed a business that it must have an automatic enrolment scheme in place.

State pension

A basic level of pension provided by the State to those who have met the minimum National Insurance Contribution requirements plus an earnings related element if applicable.

The Pensions Regulator (TPR)

The governing body for all pension-related matters in the UK. TPR oversees the implementation of automatic enrolment and enforces compliance.

Worker types

Workers are defined by TPR as being either 'entitled workers', 'eligible jobholders', or 'non-eligible jobholders'. Each has different guidance governing them when it comes to automatic enrolment.

For further information regarding any aspect of automatic enrolment, please visit our website or contact the team using any of the following methods:

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