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Workplace Pensions:
Automatic Enrolment Pensions Reform

Background

When the State Pension was introduced, over 100 years ago, hardly anyone qualified – it was paid at 70, at a time when the average life expectancy was below 50. Those who were lucky enough to receive it did so, on average, for only 3 years. Today people are living much longer – the average life expectancy is now well into the mid-eighties. Many people do not save enough or anything at all for retirement and this, together with the Government facing a much greater cost of providing pensions for an ageing population, they decided to require more people to put aside savings for their retirement, and to start at a much earlier point in their lives. The introduction of Auto Enrolment over the years from 2012 to 2018 is intended to make sure that today's workers – tomorrow's pensioners – will not be so reliant on state benefits.

So what is Automatic Enrolment?

"Auto Enrolment" is the compulsory Automatic Enrolment of all employees in a workplace pension scheme in order to provide an income in retirement. It's been a requirement for large firms – those with 250 or more employees – since October 2012, but it's coming to smaller employers now. All employers need to be aware of their obligations under Auto Enrolment and start planning.

The Department for Work and Pensions (DWP) have overall responsibility for this and the Pensions Regulator is responsible for delivering a compliance regime and for communicating the duties to employers, intermediaries and providers.

When does this apply to my business?

Any new employers after 1 April 2012 up to 1 October 2017 will have a Staging Date between 1 May 2017 and 1 February 2018.

From 1 October 2017 new employers will have an immediate duty start date and compliance duties. Postponement remains an option for these employers.

An employer can bring forward their Staging Date but not put it back. You can also postpone Auto Enrolment for up to three months but your Staging Date does not change. The Pension Regulator will write to all employers 12 months and then 3 months before the Staging Date.

You can check your Staging Date at www.thepensionsregulator.gov.uk/staging.

My company doesn't have any employees; There are only directors

Where a company only has 1 director with an employment contract and no other employees, or only has directors with **no employment contracts** then they can be excluded from Auto Enrolment irrespective of the level of salary/wages paid to them.

This must still be confirmed to the Pensions Regulator, rather than doing nothing.

If your spouse is employed in your company but they are not a director then Auto Enrolment will still apply.

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Does this apply to all my workers?

You will need to assess all your workers and divide them into four broad categories of those affected by Auto Enrolment. These categories are:

- A worker already in a qualifying scheme
- An eligible jobholder
- A non-eligible job holder
- An entitled worker

The meaning of these terms is set out below

Worker Definitions

Age (inclusive) Earnings *	16-21	22-SPA	SPA-74
Under lower earnings threshold (£5,876)	Entitled worker	Entitled worker	Entitled worker
Between £5,876 and £10,000	Non-eligible jobholder	Non-eligible jobholder	Non-eligible jobholder
Over earnings trigger for automatic enrolment (£10,000)	Non-eligible jobholder	Eligible jobholder	Non-eligible jobholder

*Based on Qualifying Earnings
(Rates apply to 15/16 tax year)
SPA = State Pension Age

Type of Worker	Automatic Enrolment	Ability to Opt-In	Compulsory Employer Contributions
Eligible Jobholder	Yes (Can opt out)	N/A	Yes
Non-eligible Jobholder	No	Yes	Yes
Entitled Worker	No	Yes	No

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What do I do once I have assessed my workers?

There are a number of things that have to be done from your Staging Date as well as every time you process your payroll. You will need to:

- Automatically enrol any eligible jobholders, who are not already members, into an automatic enrolment pension scheme from that eligible jobholder's Staging Date.
- Enrol any non-eligible jobholders that request it into an automatic enrolment pension scheme.
- To inform jobholders that they have been automatically enrolled or enrolled and that they have the right to opt out if they wish to do so.
- To respond to opt-out requests appropriately, including the refund of contributions deducted.
- To provide entitled workers with access to a pension scheme if they request it.
- Provide all workers, even those already in a qualifying pensions scheme, with written information relevant to their category.
- To deduct member contributions and make employer contributions according to the requirements of the qualifying pension scheme.
- To submit details of contributions deducted to the qualifying pension scheme.
- To periodically re-enrol any eligible jobholders who are not members of a qualifying pension scheme.
- To keep a number of records in relation to each pension scheme and each jobholder, to be kept for at least 6 years.
- To register with the Pensions Regulator giving details of the scheme and the number of people automatically enrolled.
- To comply with the Pension Law to avoid fines & prosecution

Employers must not

- Induce their jobholders to opt out.
- Have recruitment practices that will benefit job applicants who indicate they are prepared to opt out.
- Discriminate against employees or put them at a disadvantage because of automatic enrolment.

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I already have a pension scheme setup

If you already have a pension scheme for some or all of your employees you must check that it meets the Auto Enrolment criteria. It is a good idea to check with your provider sooner rather than later as the scheme may have to be modified to meet the new requirements or a new scheme may have to be set up altogether. If you don't have a compliant scheme then there are a number of options available and it would make sense to speak to a financial adviser.

Do I have to involve a Financial Adviser, or is there another option available?

Whilst it would make sense to speak to a Financial Adviser for advice on this, there is an alternative scheme that has been provided.

<u>National Employment Savings Trust (NEST)</u>

NEST is an independent pension scheme set up by the Government which is available to any employer that wants to use it to enrol their employees with a view to providing a retirement pension in due course in addition to the State Pension. Employers do not have to pay to use the scheme and the charges for the members are competitive with other scheme providers.

This scheme may not be suitable for everyone as it is designed for low and moderate earners and therefore might not give you the best deal for your employees.

There are also other schemes open to any employer irrespective of size or level of contributions made and these include, The Peoples Pension and NOW: Pensions.

How much will this cost me?

From 6 April 2019 the Government is aiming to see 8% of pensionable earnings put aside for retirement. This is a combined contribution from both employee and employer.

Initially employers will have to contribute at least 1% of qualifying earnings, (earnings between the National Insurance lower and upper earnings limits), to the scheme but this will increase to 2% from 6 April 2018 and 3% from 6 April 2019. Employee contributions will be 1% initially, increasing to 3% from 6 April 2018 and 5% from 6 April 2019, employees will receive 20% tax relief at source on their contributions.

If employers wish to pay more than the minimum contribution they can do so and all pension contributions paid by employers are an allowable expense against their profits.

So who will deal with all the paperwork?

It is possible for you or the person that deals your payroll to set up the necessary processes using the information on the Pensions Regulator website. It is also possible that your payroll software may do some or all of the administration tasks required.

We will of course offer a fully comprehensive service to all of our existing payroll clients, but any clients can take advantage of this service.

Conclusion

This Fact Sheet highlights some of the key aspects of this major change in pension legislation and is relevant to any one that is classed as a worker under these rules. If you want to discuss **how your business** will be affected or would like to be put in contact with an Independent Financial Adviser please contact us.