Pension Auto-enrolment

All employers with at least one worker in the UK will need to automatically enrol certain members of their workforce into a pension scheme. As an employer you will need to make a contribution to it and ensure that you meet all of the new requirements to comply with the law (even if you already offer pension arrangements for your workers you will still have some new obligations to meet).

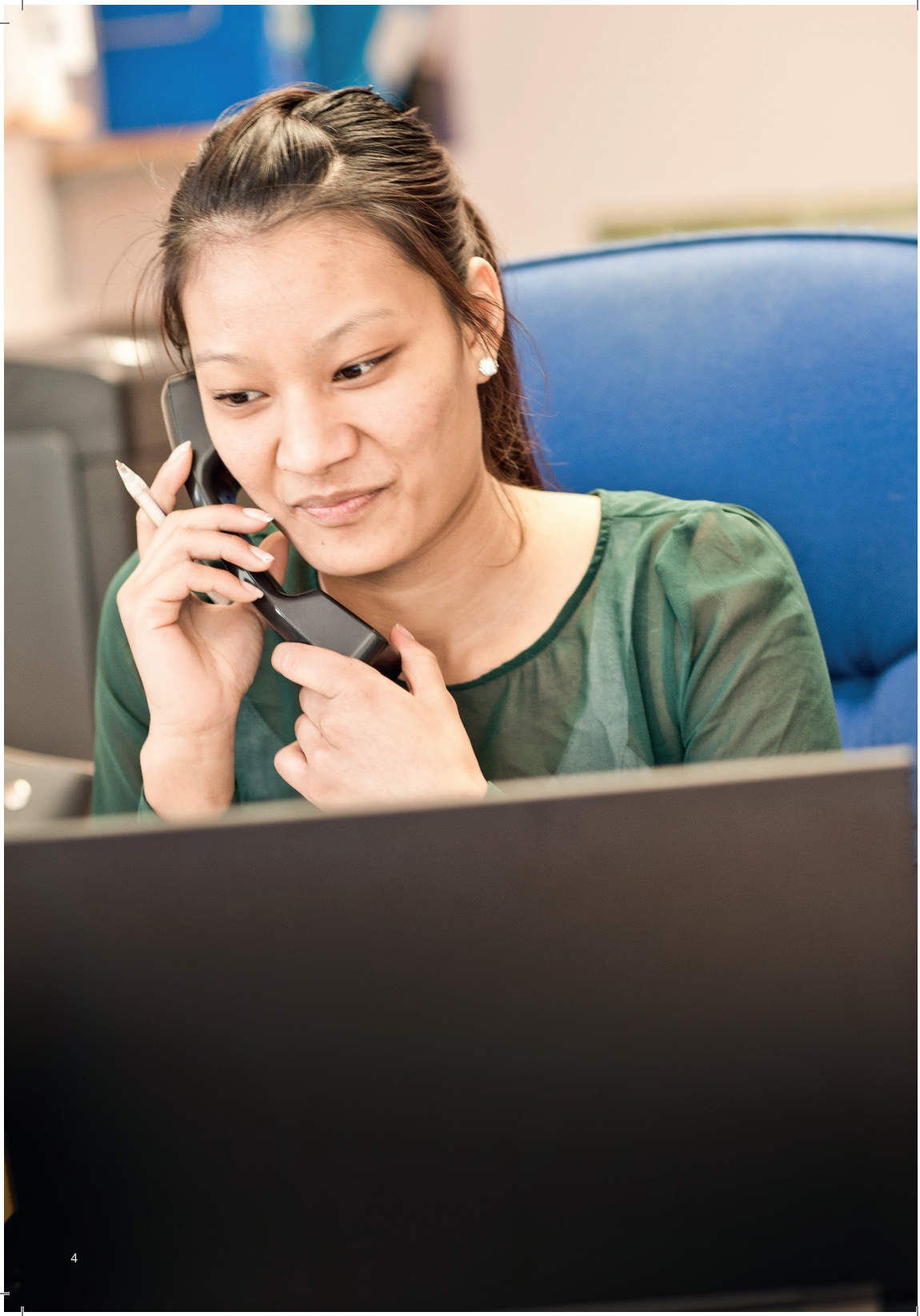
When will this affect me?

The new employer duties will be introduced in stages over six years. Each employer will be allocated a date from when the changes will first apply to them, known as the "staging date". The first staging date will be in October 2012 and will continue through to 2016.

Your staging date will be based on the number of people that you have in your PAYE scheme and employers with the largest number of workers will have the earliest staging dates.

The Pensions Regulator will contact you 6-12 months before your staging date but it would be prudent to start looking at the effects this will have on your business sooner rather than later.

If you employed fewer than 50 workers on 1 April 2012 and are part of a PAYE scheme with 50 or more people in it, you can choose to move your staging date to a new prescribed staging date between 1 August 2015 and 1 April 2017.



Staging Dates by PAYE scheme size or reference

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

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

What employers will need to do to comply with the law

Employers will need to:

- Automatically enrol eligible jobholders into a qualifying pension scheme
- Provide a qualifying scheme and inform all workers what type of scheme has been chosen
- Pay employer contributions for jobholders into the scheme
- Tell all eligible jobholders that they have automatically been enrolled and that they have the right to opt-out if they want to do so
- Provide workers with certain information about the changes and how they will affect them
- Inform non-eligible jobholders and entitled workers that they can opt-in to a qualifying scheme
- Register with The Pensions Regulator and give details of your qualifying scheme and the number of people that you have automatically enrolled.

Employers must not:

- Encourage workers to opt-out of the qualifying pension scheme
- Have recruitment practices that will benefit job applicants who indicate they are prepared to opt-out
- Treat a worker unfairly or put them at a disadvantage because of automatic enrolment.

Which employees will I need to automatically enrol?

Workers who need to be automatically enrolled are called “eligible jobholders”.

To identify if a person is earning above or below the lower earnings limit you will need to include earnings in salary, overtime, commission, bonuses, sick pay, maternity, paternity and adoption pay. This calculation will then give you the workers “qualifying earnings”.

There are three types of workers:

Eligible jobholders

- Age 22 to state pension age
- Qualifying earnings over upper threshold (£8,105 in 12/13) in pay reference period
- Ordinarily work in the UK

Non-eligible jobholders

- Age 16 to 74 who ordinarily work in the UK and earn more than the lower level of qualifying earnings (£5,564 pa 2012/13) and less than the earnings trigger (£8,105 pa 2012/13) in a pay reference period, or
- Age 16 to 21 or state pension age to 74 who ordinarily work in the UK with qualifying earnings above the earnings trigger (£8,105pa 2012/13) in a pay reference period

Entitled workers

- Age 16 to 74
- Qualifying earnings at or below lower threshold in pay reference period
- Ordinarily work in the UK

The duties for the different types of workers:

PAYE scheme size or referenece	Eligible Jobholder	Non-eligible Jobholder	Entitled Worker
Automatic enrolment & re-enrolment	✔		
Maintaining scheme membership	✔	✔	✔
Minimum employer contributions	✔	✔	
Processing opt-outs	✔		
Handle opt-ins		✔	✔
Processing cessations	✔	✔	✔
Record keeping	✔	✔	✔
Compliance	✔	✔	✔

What pension characteristics will my scheme be required to have to meet the new legislation?

Employers with an automatic enrolment duty will need to choose a pension scheme they can use for automatic enrolment. You may use an existing scheme or set up a new one with a pension provider.

In addition, there is the National Employment Savings Trust (NEST). NEST is a pension scheme with the following characteristics:

- It has a public service obligation, meaning it must accept all employers who apply
- It has been established by Government to ensure that employers can access pension saving and comply with their automatic enrolment duties.

Each pension scheme will have its own rules, but all employers will need to provide their scheme with information about the person who is being automatically enrolled.

In addition your scheme must:

- Be able to auto-enrol jobholders within one month of their auto-enrolment date
- Meet minimum requirements that differ depending upon whether the scheme is a money purchase or final salary arrangement
- Not require the employee to make any choice about funds in order to be a member
- Not put any barrier on membership other than a three month waiting or postponement period after the employee first becomes eligible
- Have a legally binding obligation on the employer to make the necessary minimum contributions (many existing group personal pensions or stakeholder schemes do not have this in place).

If your current scheme does not meet this criteria then you may have to amend your exiting scheme or select a new scheme that is compliant.

Employers who already have a pension scheme can confirm that it is suitable for automatic enrolment by a process called "certification". The Pension Scheme Regulator will contact you 6-12 months before your staging date to confirm your arrangements.

Defined Contributions Qualifying Scheme

Criteria	Rule
Tax registered	Must be registered with HMRC - EFRBs aren't
EEA based	If based outside UK but in EEA take advice on suitability
Contributions	Minimum 3% employer, 8% total by February 2018 - legally binding contract on 'ee and 'er
Postponement	Not more than 3 months
Age limits	All employees aged 16 - 74 entitled to join
Pensionable pay	Specified pay elements or certification
Default option available	New members not required to select a fund
Salary sacrifice	Employees must be able to auto-enrol without salary sacrifice if they choose
Schedule of payments	Trust based schemes have to have this

Postponement/Deferral

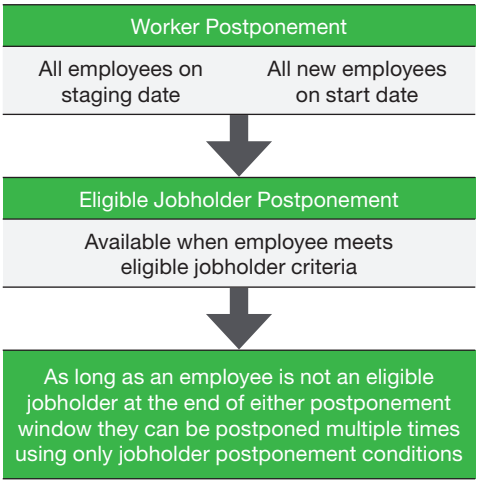
There are two types of postponement employers can use following staging date/employment start date/becoming an eligible jobholder:

- Worker postponement
- Eligible jobholder postponement

Postponement can be used to avoid:

- Auto enrolling short term workers or those with a one off spike in earnings
- Part period calculations by aligning auto-enrolment dates with the start of a pay reference period
- Refunds of deductions made in a previous year
- Additional costs

Postponement - Two Types



Postponement Notices

When employers use postponement, a postponement notice must be issued. The four types of postponement notices that an employer can issue are:

General Notice A – covers all three categories of worker and could be sent out to all workers covering postponement, opt-in/joining rights or that the person is in a scheme already

General Notice B – excludes those already in the scheme staging

Tailored notice for an entitled worker – just for those who can join

Tailored notice for a jobholder – for those who can opt-in to an automatic enrolment scheme

Steps to prepare for Auto-enrolment

Step 1 – Assess and segment workforce

- Identify who your workforce is
- Workers are defined by age and earnings
- Those of certain age and earnings are eligible jobholders
- Other workers still have rights

Employers should be doing a check now to understand the numbers of each category of workers and number of people whom are not-pensioned. They need to access cost in terms of increased contribution and admin. They need to decide if a new scheme is needed. They can also consider salary sacrifice.

Step 2 – Review and choose scheme(s)

You might have an existing scheme that you can use or adapt for automatic enrolment, or you may need to set up a new one.

Options

Use existing scheme for current members and new eligible jobholders	• As long as it is qualifying and can auto-enrol
Use existing scheme for current members and new scheme for auto-enrolment	• If existing scheme is qualifying but can't auto-enrol e.g. is closed to new members, based outside the EEA
Choose a new scheme for current members and eligible jobholders	• Can be more than one scheme • NEST could be an option

Step 3 - Communicate the changes

Employers are required by law to write to all workers (except those aged under 16, or 75 and over) explaining what auto-enrolment into a workplace pension means for them.

There are different information requirements for each category of worker so it is key to understand what is required for auto-enrolment before communicating this to employees.

Step 4 - Automatically enrol your 'eligible jobholders'

An employer must automatically enrol eligible jobholders, who are not already a member of a qualifying pension scheme from the auto-enrolment date.

The employer must then auto-enrol any employee who becomes an 'eligible jobholder', whether on turning 22 or if their earnings takes them over the upper threshold (£8,105 in 2012/13).

Step 5 - Register with The Pension Regulator

Businesses are required to register shortly after their staging date with The Pensions Regulator. Registration will be a straightforward process that can be completed online.

Step 6 - Contribute to your workers' pensions

Employers will be required to make on-going contributions to your workers' pension schemes. The minimum contribution rates that an employer must pay into their worker's pension scheme will be introduced gradually. This is known as 'phasing'.

Jargon Buster

TPR	The Pensions Regulator
NEST	National Employment Savings Trust
PAYE	Pay As You Earn (Income Tax)
NIC	National Insurance Contributions
DWP	Department for Work & Pensions
HMRC	Her Majesty's Revenue & Customs

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