Automatic Pension Enrolment
Are you prepared?

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Automatic Pension Enrolment is here

What is Auto Enrolment and why do I need to know?

"Auto Enrolment" is the 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.

Why are they doing this?

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. Faced with the much greater cost of providing pensions for an ageing population, the Government 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.

How urgent is this?

Auto Enrolment is here already. It began in October 2012 for very large employers. Employers with between 50 and 249 staff should already have been told their "staging dates" when they will be required to start enrolling staff. These firms will join the new system between 5 April 2014 and 5 April 2015.

The smallest business entities – those with 1 to 50 employees – will have a staging date between June 2015 and April 2017. If you are a brand new small employer, in that you started to operate a PAYE scheme after 1 April 2012, you will have longer to set up a pension scheme: your staging date should fall between 1 May 2017 and 1 February 2018.

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

Isn't that quite a long time away?

Don't leave Auto Enrolment planning to the last minute. There are many procedures to go through and you will need to allow sufficient time to deal with them. It's also likely that you will need the help of a qualified pensions adviser to set up a scheme for your employees – and there aren't that many qualified advisers out there. As the deadlines approach, there could be a lot of small businesses in the queue for assistance.

All right, where do I begin?

A good place to start is to look at your workforce to consider how they divide up among the four broad categories of people affected by Auto Enrolment. The categorisation depends on the age of the employee and their level of earnings. The four categories are:

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

The meaning of these terms is set out in the table on the next page. The main thing to remember is that the default position is that workers must be included in a scheme, so you have to arrange for a scheme to be available.

I already have a pension scheme set up!

If you already have a pension scheme set up you must still ensure that it meets the Auto Enrolment criteria – you can't simply assume that you can use that scheme under the new rules. Auto Enrolment schemes have a different charging structure which is lower than for many existing arrangements.

It's a good idea to consider this sooner rather than later. If the existing scheme is compliant then you can use it; if it isn't, then you will need to find out whether it can be modified to meet the new requirements. Alternatively, you may wish to retain an existing scheme for some employees but still set up a new scheme for others.

I don't have a compliant scheme in place

Here you have a number of options. You can select your own pension scheme by referring to your own financial adviser. If you don't have a financial adviser, the website www.abi.org.uk/pensionproviders offers some help in finding and choosing one, or alternative courses of action if you don't want to involve a financial adviser.

So how much will this cost me?

There is a cost for both the employee and the employer. The Government is aiming to see 8% of pensionable earnings put aside for retirement from 1 October 2018 onwards. This will come from a combination of employer and employee contributions and income tax relief. As an employer, you must put in a minimum contribution of 1% of pensionable earnings if your staging date is up to 30 September 2017. If employers wish to pay more – perhaps the full 8% – then they can do so. The phased minimum contributions are set out in the table below.

Contributions are based on the band of qualifying PAYE income between the National Insurance lower and upper earnings limits – £5,668 and £41,450 for 2013/14. This means that a contribution of 8% on a salary of £12,000 is not £960 – it's 8% of £6,332, £506.56.

Pension contributions paid by employers are an allowable expense against profits, and those paid by employees reduce the tax on their pay. So the Government also contributes to the pension scheme in tax relief.

Employer's staging date	Employer minimum contribution	Total minimum contribution
to 30.9.2017	1%	2%
1.10.17 to 30.9.18	2%	5%
1.10.18 onwards	3%	8%

Nest

Nest is an independent pension scheme designed to offer low to moderate earners a simple low cost way to save for retirement.

The key features of this type of scheme are:

- Employers do not have to pay any charges to use the scheme.
- The charges for these schemes to members relative to the costs in the financial service industry are competitive.

They have been set at an initial 1.8% of contributions and an annual charge of 0.3%. If you want to check how competitive these charges are, you will need to appoint an independent adviser or research the matter yourself.

- There will be a limited choice of investment funds and a default fund if you do not make a choice of where you want your money invested.
- There will be a combined total investment for employer and employee and the government via tax relief until 2017.

If you want to use the Nest option it is better to give them a call to discuss your specific circumstances (0300 303 1949).

However this scheme is unlikely to be suitable for everyone as it is primarily designed for low earners. If you want the best deal for your staff, you will have to spend some time researching the market, or ask someone else to do so for you.

I don't want to involve a financial adviser

If you don't want to use a financial adviser then you will have to go through all of the basic steps yourself – the review of the workforce to identify the different categories, and the determination of how the rules affect each of them.

Eligible jobholders must be enrolled in the scheme automatically, unless they opt out as described below.

Non-eligible jobholders can still enrol into the scheme but they don't have to. The employer is required to offer this category the opportunity to join, and must make employer contributions for them if they choose to enrol.

For the fourth category of entitled workers, the good news for employers is that they don't have to make a monetary contribution. If the employee chooses to enrol, the employer's obligations are limited to setting the scheme up and ensuring that the employee's deductions are taken from the workers' payroll and paid into the pension fund.

Does every employee have to join this scheme?

An employee may not want to join the scheme. There are limited circumstances in which an employee is allowed to opt out. The employee must notify the employer using a document called an 'opt out notice'. This will be available from the scheme provider. Employers must be able to demonstrate that they have had no influence on an employee's decision to opt out – there are severe penalties for trying to talk people out of enrolling.

The opt out period starts at the later of:

- The worker becoming a member of the scheme
- The worker receiving enrolment information from the employer.

The opt out period lasts for one calendar month. If a valid opt out notice is communicated to the scheme provider within the period, contributions can be refunded to the employee. If the employee misses the deadline date, they can still come out of the scheme later, but they will not be able to obtain a refund of contributions already paid in.

After opting out, an employee will still be automatically enrolled again 3 years later, with a further right to opt out at that time.

Conclusion

We are here to help you deal with this major change to the UK pension legislation. Perhaps you need some help in reviewing your internal systems, or adjusting your cash flow and internal profit forecasts, or maybe working through the cost implications of employer pension contributions. Please contact us for any help you may require.

Categories of employees

Anyone who is classed as a worker is covered by the legislation.

A worker includes:

- An employee
- A person who has a contract to provide work or services personally and is not undertaking the work as part of their own business.

Eligible jobholders are those aged between 22 and the State Pension age who:

- Have qualifying earnings above the personal income tax allowance (£10,000 in 2014/15)
- Are working, or ordinarily working, in the UK under the terms of their contract of employment

Non-eligible jobholders are those who:

- Are aged between 16 and 21 or between the State Pension age and 74
- Are working, or ordinarily working, in the UK
- Have qualifying earnings above the personal tax free allowance

or else:

- Are aged between 16 and 74
- Are working, or ordinarily working, in the UK
- Have qualifying earnings below the personal tax free allowance

That is, a non-eligible jobholder is either someone outside the normal age range for pension provision (21 to State Pension age), or someone who earns less than the personal allowance.

Entitled workers are those who:

- Are aged between 16 and 74
- Are working, or ordinarily working, in the UK
- Are paid less than the National Insurance lower earnings limit in the year (i.e. below £5,772 for 2014/15)

This report has been written for the benefit of the clients of Capitax Financial Ltd (Company Registration No.07159184, Registered in England & Wales).

Further advice should be obtained before any action is taken.