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Pension Auto Enrolment: An Employer's Guide

Your concise guide to the key facts and action points

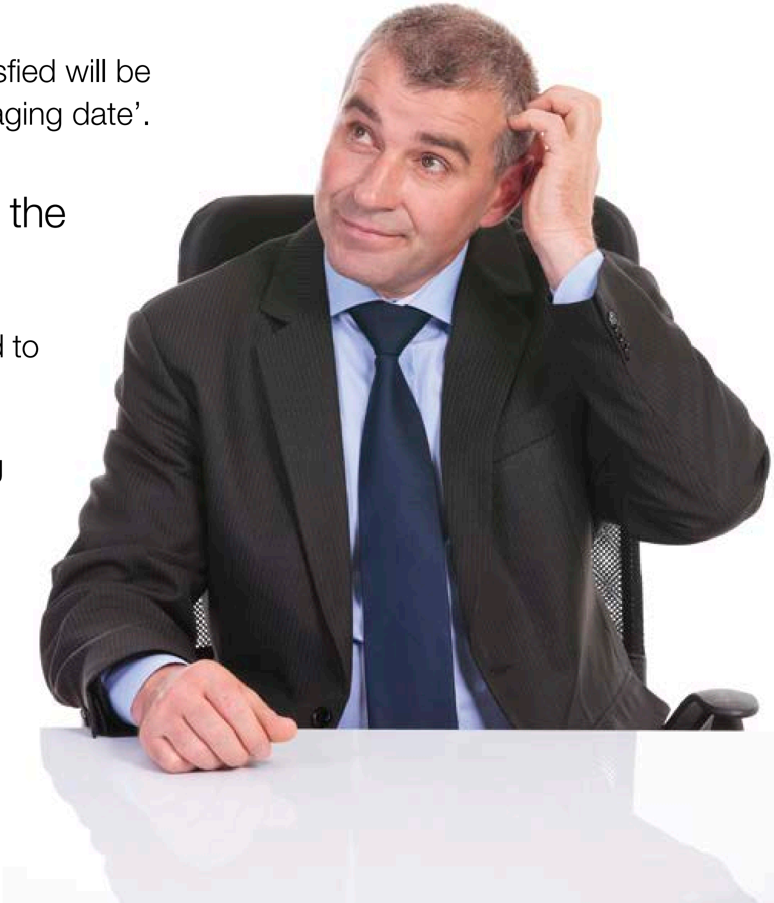
Auto enrolment is the statutory requirement on an employer to:

- have an appropriate pension scheme
- arrange for most of the workforce to be automatically enrolled in the pension scheme, and
- 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'.

A lot of work will be required before 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
- check that your payroll software or payroll agent can deal with the calculation and deduction of contributions.



In this guide, key terms are shown in **bold** and the terms are either explained in the summary or at the end of the summary.

When do I have to start auto enrolment?

Determine your staging date

The auto enrolment rules have a staggered implementation by reference to the number of employees.

An employer can precisely work out when the auto enrolment rules will have to be applied as the implementation date (known as the 'staging date') is set by reference to the number of persons in an employer's PAYE scheme on 1 April 2012. The more employees an employer has on that date, the earlier the staging date.

For those with less than 50 employees the earliest start date is 1 June 2015 but the precise date will depend not only on the actual number of employees on 1 April 2012 but also an employer's PAYE reference number.

The earliest date for an employer with up to 30 employees on 1 April 2012 is 1 June 2015 and the latest date is 1 April 2017.

Importantly it does not matter how many employees an employer has on the staging date – there may be considerably more (or less) than on the 1 April 2012. So if you are an employer, look at the number of employees you had on the 1 April 2012 to know where you stand.

To find out your staging date go to:

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

This tool is designed for employers with only one Pay As You Earn (PAYE) scheme.

There are also some circumstances where entering your PAYE reference into the tool won't necessarily provide your staging date. See the link below.

thepensionsregulator.gov.uk/en/employers/find-out-your-staging-date/exceptions/

If you set up in business after 1 April 2012

If you set up in business after 1 April 2012, there are different dates which are based on when PAYE first became payable as an employer. You can find your staging date using the link above.

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. The use of postponement is explained later in the 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 be. An initial analysis will therefore 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 in 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 2015/16 and 2016/17.
- working or ordinarily working in the UK
- not already in a qualifying pension scheme.

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’ (ie 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.

Eligible jobholder

- Aged 22 to State Pension age
- Earning from £10,000

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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 6 April 2018) 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 6 April 2019.

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 £43,000 for 2016/17. 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 (ie lower and higher thresholds are £486 and £3,583 per month for 2016/17).

Example of how the thresholds work

In November 2019 Eric has £2,000 pay. He receives a bonus in December which takes his pay in that month to £5,000.

Assuming the thresholds do not increase from 2016/17 amounts, the contributions payable are:

	Nov	**Dec**
Amounts above lower threshold but below higher threshold	£1,514	£3,097
Employer - 3%	£45.42	£92.91
Employee (net contribution) - 4%	£60.56	£123.88
Tax relief on employee contribution - 1%	£15.14	£30.97

4 Prepare a budget based on minimum contributions

How much auto enrolment is going to cost you as an employer depends on the age profile of your workers, the level of pay and what percentage will decide to opt out or opt in. All these variables can be estimated and budgeted at an early stage so that the financial effects of auto enrolment can be planned for.

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Consider who will be the pension provider

Employer duties

Your responsibility as an employer is to have an appropriate pension scheme. To be a qualifying auto enrolment scheme, a scheme must meet the qualifying criteria and the auto enrolment criteria.

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.

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.

Choosing a pension scheme

You can choose an appropriate pension scheme yourself. The type of scheme most likely to be available to you is a scheme run by a large, specialist provider that is designed to be used by many different employers. This may be known as a ‘master trust’ or a ‘group personal pension’.

Master trusts are run by a board of trustees and group personal pensions are run by financial service companies, eg insurance companies and investment managers.

Issues you need to consider include:

- the cost to you and your workers of the pension scheme
- whether the scheme you choose is suitable for your workers. For example, tax relief is given to workers by the scheme operating a ‘net pay arrangement’ or ‘relief at source’. If you choose a scheme that operates ‘relief at source’ then all low paid workers will be able to have tax relief but higher paid workers may have to claim part of their tax relief from HMRC
- whether the scheme will write to your workers on your behalf to tell them about automatic enrolment
- what assistance the scheme provides for the administrative duties required by auto enrolment.

You can find further information about pension scheme choice from The Pensions Regulator at:

http://goo.gl/gE2WRh

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**.

The Pensions Regulator provides templates which can be used to provide the required information which can be found at:

http://goo.gl/HYUyJ9

You may want some help to perform these tasks. In some cases the pension scheme you have chosen may help.

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.

The link above to The Pensions Regulator provides a useful source for these communications.

There are some things you can't 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.

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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 pay reference 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.

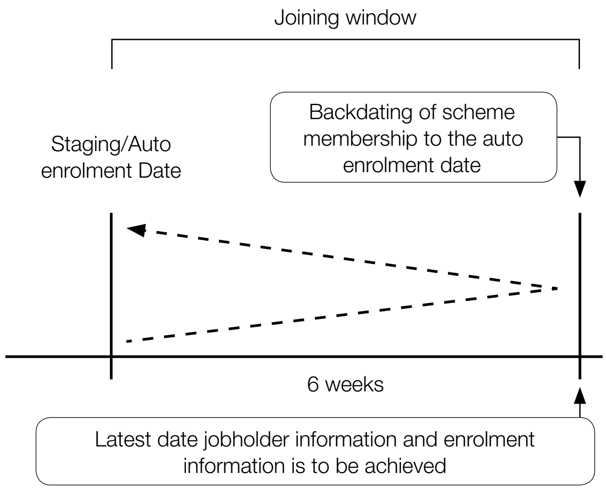
Payroll software or other software can be used to calculate the employer and employee contributions and compute the amounts payable to the pension scheme.

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.

For example, you have an employee, Sue, who is currently 20 years old and is paid £12,000 a year. Sue is a **jobholder** which means she can ask to be enrolled and she is entitled to an employer pension contribution. She does this by giving you an 'opt-in notice'. If she does not enrol, you will be required to automatically enrol her when she is 22. At that point she has the right to opt out.

Summary of auto enrolment process



*Source of chart - The Pension Regulator

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.

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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.

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Earnings trigger

The earnings trigger determines who gets automatically enrolled. The trigger changes each tax year and is broken down by pay frequency, eg 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 2016/17) 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**.

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.

Postponement

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.

The maximum period is three months.

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