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Employers Guide to
**PENSIONS AUTO
ENROLMENT**

Helping you put the pieces together



This guide is designed to help employers understand and prepare for pensions auto enrolment.

The guide will help answer the following questions:

1. What is auto enrolment?

2. When will it affect me?

3. What do I have to do?

4. What will it cost?

5. What should I do next?

1 WHAT IS AUTO ENROLMENT?

Recent changes to the law on pensions means that every employer in the UK will have to automatically enrol certain workers into a pension scheme by 2018 at the latest. Pensions auto enrolment is a huge change for employers to be aware of and to plan for.

2 WHEN WILL IT AFFECT ME?

Employers join auto enrolment on their **staging date**, although they can join earlier if they wish. The staging date is based on the number of employees as at April 2012. The largest employers joined in October 2012 and it is now being rolled out to all other businesses in decreasing order of size, with all employers joining by 2018. Employers may postpone the joining date for workers for up to three months, but must notify those affected within a fixed timeframe.

You can find out your staging date and more information about postponement by visiting the Pensions Regulator website at www.thepensionsregulator.gov.uk

If you do not know your staging date you should find this out as soon as possible in order to allow time to deal with the issues involved. We can help to determine your staging date if required.

3 WHAT DO I HAVE TO DO?

- a) Choose a scheme
- b) Identify and enrol the applicable workers
- c) Communicate with workers
- d) Keep records to prove that you have complied with auto enrolment
- e) Make contributions to the scheme (see section 4, 'What will it cost?')

a) Choosing a scheme:

Employers are required to choose an appropriate **qualifying pension scheme** into which their workers may be auto enrolled. Employers may choose the scheme themselves, or they may seek the advice of an independent financial adviser (IFA). If required we will happily introduce you to an IFA to assist you with this choice.

i. What is a qualifying pension scheme?

A qualifying pension scheme can be **an existing scheme** that has been compliance checked (and modified if necessary), or it may be a new scheme set up specifically for auto enrolment.

Many employers will have heard of the **National Employment Savings Trust (NEST)**. This is a master trust that has been set up by the Government to ensure that employers can access a pension scheme to help them comply with auto enrolment. NEST has a public service obligation which means it must accept all employers who wish to select it as their auto enrolment scheme provider, and it is the only scheme that is legally obliged to do so. For more information about NEST see www.nestpensions.org.uk

There are also a variety of **other pension schemes** available on the market from which employers may choose, and some of these are aimed specifically at the auto enrolment market. A list of providers can be found on the Association of British Insurers website www.abi.org.uk/Insurance-and-savings/Products/Pensions/Saving-into-a-pension/Automatic-enrolment/Providers

ii. Can I use an existing pension scheme?

Existing pension schemes may be compliant with auto enrolment but you will need to check this with your pension provider or IFA. It is likely that in many cases existing schemes will need to be altered and also pension providers may not accept new auto enrolment members into existing schemes.

Once you have made a decision about which pension provider to use we can usually help you to register the scheme, ensuring that you meet your obligations as an employer.



b) Who do I need to enrol?

As an employer for auto enrolment purposes you will need to know whether:

- i. you employ someone the legislation classifies as a 'worker'?
- ii. if you employ a worker, what category of worker they are?

i. What is a 'worker' for auto enrolment purposes?

A worker is defined as any individual who either:

- works under a contract of employment (**an employee**), **OR**:
- has a contract to perform work personally (not undertaking the work as part of their own business). These workers, which can include agency workers, are considered to have a '**contract of service**' (as opposed to a self employed contractor working under a contract for services). The distinction between a contract of service and a contract for services is not always easy to make, so expert advice should be sought if in doubt.

One-person companies note: If an individual is a director of a company and the company has **no other employees** that individual is not a 'worker', and the company is therefore not subject to the auto enrolment employer duties.

ii. What are the categories of worker?

Workers fall into the following categories, each with differing rights:

- **Eligible jobholder:** aged between 22 and the state pension age and earning more than £10,000 per annum (tax year 2014/15) - they **must** be automatically enrolled and both employee and employer contribute.
- **Non-eligible jobholder:** aged between 16 and 22 or between state pension age and 74 and earning more than £10,000 or aged 16-74 and earning between £5,772 and £10,000. Non-eligible jobholders are not eligible for auto enrolment, but can **choose** to opt in, with both employee and employer contributing.
- **Entitled worker:** aged 16-74 and earning less than £5,772 - they have the **right** to join a pension scheme, which can be different to the one used for auto enrolment. The employer can choose not to contribute.
 - Any worker that is enrolled, either an eligible jobholder or a non-eligible-jobholder who has opted in, can choose to **opt out** of auto enrolment at any time. Once they opt out both the employer and employee contributions will cease. They can then opt back in at specified times, or at anytime at the discretion of their employer.
 - Any eligible jobholder opting out will automatically be **re-enrolled** at the third anniversary of the staging date.

We can help you to identify your eligible, non-eligible and entitled workers.

c) What are the worker communications?

As part of your responsibilities as employer, you are required to provide certain information to your workers in writing, at specified times, regarding their automatic enrolment into the new/existing/updated qualifying pension scheme.

As part of our auto enrolment service, we can help with the communications process.

d) Record keeping

The auto enrolment regulations specify certain records that all employers are obliged to keep demonstrating that they have met their obligations.

Penalties can apply if an employer fails to produce records when requested by the pensions regulator.

We can advise you on your obligations and assist you with keeping records.

“ We benefit from their knowledge and expertise in payroll matters and they also have the necessary software, which saves us from having to have our own payroll system. ”

Steve Morley, Head of HR, Meller Group



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4 WHAT WILL IT COST?

- a) What are the contributions?
- b) How much will it cost employers?
- c) Are there any options which can reduce costs?
- d) What are the fines and penalties for non-compliance?

a) What are the contributions?

The regulations have defined a **total minimum contribution** that is made up of employer and worker contributions, and a **minimum employer contribution**. Employers must therefore pay at least the minimum employer contributions to the scheme, although they can pay more if they choose to.

The worker contribution is therefore the difference between the total minimum contribution shown in the table and the actual employer contribution.

There are a number of ways in which the contributions can be calculated however in most cases the contributions will be based on a percentage of a band of qualifying earnings (including payments such as overtime and bonuses). For 2014-15 the earnings band is between £5,772 and £41,865.

| Date | Total Minimum Contributions | Minimum EMPLOYER Contributions |
|---|-----------------------------|--------------------------------|
| Employers staging date to 30 September 2017 | 2% | 1% |
| 1 October 2017 to 30 September 2018 | 5% | 2% |
| 1 October 2018 onwards | 8% | 3% |

b) How much will it cost employers?

As a guideline, if you employ a person with average qualifying earnings of £25,000, the additional annual cost of the employer contributions would start at around £200 and rise to around £600 per annum by October 2018.

c) Are there any options which can reduce costs?

A salary sacrifice arrangement might be a useful tool through which to make payments into the workers pension scheme. This works through the worker agreeing to a reduced salary in lieu of their employer making an increased employer pension contribution. This saves both employee and employer National Insurance costs. A salary sacrifice scheme requires the worker to vary their terms of employment so legal/HR advice is recommended if this option is chosen. It is possible to obtain HM Revenue & Customs agreement to a salary sacrifice scheme.

d) What are the fines and penalties for non-compliance with auto enrolment?

The auto enrolment penalty regime ranges from informal action and guidance to encourage compliance with the pension legislation, through to statutory notices and financial penalties currently including fixed penalties of £400 and daily fines of between £50 and £10,000.

5 WHAT SHOULD I DO NEXT?

You should not underestimate the time it will take you to prepare for auto enrolment. This should include an assessment of your existing payroll functionality to find out whether it complies with minimum auto enrolment requirements. Some systems can be upgraded whilst others may need replacing.

If George Hay's specialist payroll bureau '**GH Payscheme**' already manage your payroll function you can rest assured that our systems are fully compliant with all aspects of auto enrolment, including the reporting of pension contribution information directly to all of the major pension providers.

If you deal with the payroll function in-house, once you have assessed your options available and the costs involved in upgrading or replacing your system, you may decide now is the time to consider outsourcing your payroll function altogether. We are able to manage your payroll function for you, ensuring a seamless integration into your auto enrolment obligations.

With the many important issues to consider when preparing for auto enrolment, it is recommended that you get the expert support that will help your business make a smooth transition into auto enrolment compliance.

How we can help, at a glance:

- Reviewing systems to help you prepare for auto enrolment
- Identifying and calculating the costs of auto enrolment
- Advising on salary sacrifice
- Assisting with the auto enrolment communications that you need to send to your employees
- Assisting with setting up a suitable pension scheme
- Full payroll bureau support for auto enrolment

You may need an independent financial adviser to:

- Review existing pension schemes for auto enrolment compliance
- Help select a new, auto enrolment compliant pension scheme
- Carry out pension reviews for individual employees

For more information please contact us:

Biggleswade: 01767 315010

Huntingdon: 01480 426500

Letchworth: 01462 708810





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