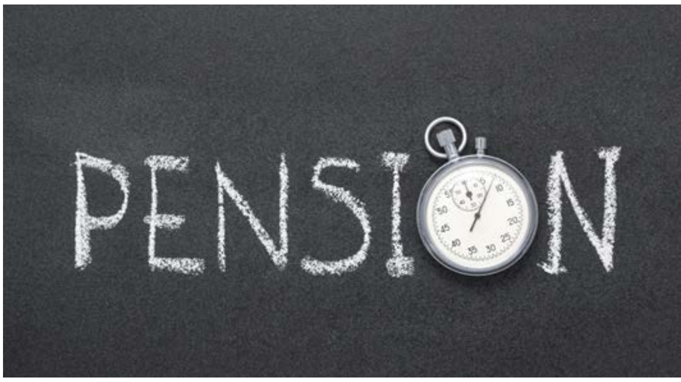
Employee Pensions

2018

NW BROWN
EMPLOYEE BENEFITS

7 Steps to Auto Enrolment



This legislation affects every employer in the UK with one or more employee.

1. Staging Date (when an employer will be required to comply)

HMRC and the Pension Regulator have used PAYE Scheme Reference and number of employees as at 1 April 2012 to determine staging dates and are writing to each employer twelve months and three months ahead of their staging date.

Large employers from	1 October 2012
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	1 April 2015

Fewer than 50 employees will stage between 1 June 2015 & 1 February 2018 depending on the number of employees and PAYE reference numbers. Contact us should you require further information.

Employers can operate a "postponement of automatic enrolment" (waiting period) of up to three months. A relevant postponement notice for the category of employee must be issued within 6 weeks of the staging date and must identify what date the postponement period ends. At the end of the postponement period the employee will be assessed and this could lead to automatic enrolment

Postponement can assist with aligning payroll to prevent part month contributions, avoiding auto enrolling short term workers, and arranging contractual salary sacrifice agreements.

Employers will have to register with The Pensions Regulator www.tpr.gov.uk/registration

2. Assess Workforce

Employers will have to review their workforce, i.e. those who have a contract of employment or those that have a contract to perform work/servicing.

Eligible jobholders

- Employees aged over 22 and under state pension age with earnings above £10,000. This category of employee must be automatically enrolled and pension contributions maintained. Employers must process any opt-out notices and re-enrol employees every three years (on the triennial review date of the scheme – those opted out within one year of this review date can be excluded from the re-enrolment exercise). The employer must keep records for six years.

Non eligible jobholders

- Employees aged 16-21 and those over SPA to age 74, who also have earnings in excess of the "earnings trigger" (£10,000).
- Employees aged 16-74 with "qualifying earnings" (in excess of £5,824 but below £10,000). Non eligible jobholders have the right to opt in. The employer must provide information about the right to opt in, the postponement period, arrange membership, process any opt out notices and keep records for six years.

Entitled workers

- Workers aged 16-74 with earnings below "qualifying earnings" (£5,824) still have the right to join but the employer does not have to make contributions until earnings exceed £10,000. The employer must provide information about the right to opt in, postponement period, and keep records for six years.

Agency workers and Casual staff

- This category of employee is identified by payment frequency and estimated annual earnings. If monthly income is above the auto enrolment income trigger (£833) the employee may have to be automatically enrolled.

Responsibility for auto enrolment will fall to the person/employer paying the worker's salary.

Pay reference periods will have to be determined as these link into payroll and auto enrolment management systems i.e. payroll cut off date, payroll dates.

Qualifying earnings are earnings between £5,824 and £43,000 (2016/17 tax year) including salary, commission, bonuses, overtime, statutory maternity pay and statutory sick pay.

Employers will have to:

- Identify relevant pay reference period.
- Identify what is payable in that period.
- Compare what is payable against the lower level of qualifying earnings and the earnings trigger.

3. Review present pension arrangements

Employers will have to select an automatic enrolment scheme which can be an existing scheme or an alternative scheme e.g. National Employment Savings Trust (NEST) which has a public service obligation to accept all employers.

Automatic enrolment scheme must meet the qualifying criteria by allowing employers to automatically enrol, opt in/out jobholders and must not require the jobholder to express a choice or provide any information to become an active member of the scheme.

Qualifying workbased pension schemes – an existing group scheme can be registered / certified with The Pensions Regulator. The certificate only lasts for 18 months and must then be renewed. The aim is to certify schemes to avoid individual assessment of each employee, but schemes have to meet a set level of pension contributions, depending on the definition of earnings (see point 7).

The certification process must be completed within one month of the staging date. If setting up a new pension scheme e.g. NEST, certification must be carried out within one month, after any postponement period (i.e four months after staging if operating a three month postponement).

If the employee does not wish to make a choice, a default pension fund will be nominated into which pension contributions will be invested. The default fund must be reviewed regularly for performance, charges and a full review should be conducted triennially. All decisions and reviews must be fully documented and communicated to employees. The selected default pension fund must take into account the employees' profile, hold a diversified range of assets and have an investment approach/strategy for those employees approaching retirement age.

The DWP has published guidance on governance of funds, charging structure and communications:

www.dwp.gov.uk/policy/pensions-reform/workplace-pension-reforms/guidance

An agreement, which is legally binding, must be in place between the employer, jobholder and group pension scheme provider. This agreement must state that the employer will make contributions of at least the minimum 3% of qualifying earnings by October 2018 and that the jobholder will also make contributions so overall the minimum 8% is maintained. Tax relief is included within the 8%.

4. Communicate Changes to all Workers

The Pension Regulator has template letters, poster, PowerPoint presentation, FAQ's, and guides on their website. www.thepensionsregulator.gov.uk/employers

Employers must continually monitor changes in workers' ages, earnings and categories.

Eligible jobholders – must be provided with written information about the auto enrolment scheme, what it means for them, levels of contributions and their right to opt out.

Non eligible jobholders – must be provided with written information about their right to opt in and what it means for them and levels of contributions..

Entitled workers – must be provided with written information about their right to join with no employer contributions.

All written information should be given to new employees with their offers of employment and again at the date of joining. The information should confirm the date of auto enrolment, which pension scheme into which they will be enrolled, the default pension fund and level of contributions (see point 7). It should also include information on how eligible jobholders can opt out, obtain refunds and timescales.

All current pension scheme members must receive written confirmation within 6 weeks of their staging date to confirm that they are members of a certified scheme.

There are safeguards in place to protect the rights of individuals who have access to pension saving, e.g. an employer must not offer an inducement for all eligible jobholders to opt out of auto enrolment or operate a prohibited recruitment process e.g. only make a job offer if the potential employee agrees to opt out.

5. Automatically enrol eligible jobholders

The pension scheme **must not:**

1) contain any barrier to enrolment.
2) require a jobholder to provide information to become or remain a member.
3) require a jobholder to make any choice to join or remain a member.

An employer must give information to the pension scheme provider about the eligible jobholder e.g name, sex, date of birth, automatic enrolment date, National Insurance number, work postal address, email address, gross earnings and value of pension contributions in any pay reference period. Pension contributions can be represented as a fixed amount or percentage.

Before the end of the joining window the eligible jobholder must be provided in writing with key feature information about the pension scheme into which they will be automatically enrolled and from what date. They should be advised of the level of pension contributions, their right to opt out and from where an opt out notice can be obtained. If a jobholder opts out they have the right to opt in within a twelve month period.

Employers must continually monitor workforce, requests to opt in/opt out and re-enrolment of previous opt outs every three years after staging date.

Opt out period - If an eligible jobholder wishes to opt out, in the majority of cases only the pension scheme provider can supply the relevant form, which must be signed and returned to the employer within one month of the jobholder's auto enrolment date. If the form is received after this period there can be no refund. Effectively this date can be two months as monies do not have to be paid into the pension contract until after the end of the opt out period. Entitled workers who opted to join do not have opt-out rights.

Refunds are processed if a valid opt out notice is received within one month of the auto enrolment date. If the notice is received after the payroll cut off date, refunds can be processed as long as the notice is received before the last day of the second applicable pay reference period. The refund amount is equivalent to the amount deducted. To avoid unnecessary administration the employer can retain pension contributions until after the opt out periods then forward them onto the pension scheme provider to be allocated to a pension policy.

Ending active membership – the employer must not take any action that results in the jobholder ceasing membership unless they provide a relevant opt out notice.

6. Register and keep records

Every employer must complete the Pensions Regulator certification process within four months of their staging date if setting up a new pension scheme or within one month if using an existing pension scheme. The certificate only lasts for 18 months and then will require renewal. This process must be documented and signed off by a senior partner.

All communication with employees, opt in/opt outs, payroll software records, auto enrolment management records and salary exchange documentation must be be kept for a minimum of four years and in some cases six years. The Pensions Regulator website has a detailed checklist of what must be produced and stored.

www.thepensionsregulator.gov.uk/guidance-record-keeping

7. Contributions

These can be over a phased period with the pension contribution percentages being dependent upon definition of earnings, i.e. basic salary, total pay or band earnings (£5,824-£43,000).

If an employer wishes to use basic salary as a definition of earnings, for a group scheme to be "certified" the minimum contribution has to be 9%. This reduces to 8% if 85% of total pay is assessable for pension contributions and 7% if total pay is assessable for pension contributions.

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Basic salary definition - phasing of payments		
Staging date	30/09/2017	3% (min 2% employer)
01/10/2017	30/09/2018	6% (min 3% employer)
01/10/2018 onwards		9% (min 4% employer)

Basic earnings definition - phasing of payments		
Staging date	30/09/2017	2% (min 1% employer)
01/10/2017	30/09/2018	5% (min 2% employer)
01/10/2018 onwards		8% (min 3% employer)

Contributions have to be processed by the 19th (22nd if electronic payment) of the month following deduction, but they should be processed as soon as possible as they are an element of pay. Pension funds purchase units and with the current stock market volatility the payment date can make quite a difference to the price at which they are purchased.

	7% of all earnings*		8* of all pensionable salary provided 85% of total payroll is pensionable*		9% of pensionable salary		8% of qualifying earnings	
	Total must be	Employer must contribute	Total must be	Employer must contribute	Total must be	Employer must contribute	Total must be	Employer must contribute
Staging date to March 2018	2%	1%	2%	1%	3%	2%	2%	1%
April 2018 to March 2019	5%	2%	5%	2%	6%	3%	5%	2%
April 2019 onwards	7%	3%	8%	3%	9%	4%	8%	3%

*Earnings must include everything that is included in the definition of qualifying earnings.

Salary Exchange is a contractual agreement between the worker and the employer, whereby salary is exchanged for pension contributions. Processing a jobholder's pension contributions using this method reduces the amount of national insurance payable by the employer and the jobholder. A salary exchange agreement must form a separate part to the contract of employment; it cannot be compulsory and must be in place prior to the auto enrolment date. The post exchanged salary can be used to calculate the qualifying earnings and respective pension contributions. Salary exchange can affect the value of some state benefits.

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Flexible Benefit schemes can still be offered but the employer has to conform to their duties, i.e. the jobholder will have to be enrolled into the scheme at the minimum contribution levels. The jobholder can opt out or make changes to the contribution levels providing minimum levels are maintained.

Contributions below statutory minimum levels – jobholders may decide to stay in a pension scheme into which they have been automatically enrolled, on a lower contribution rate, which is below the statutory minimum. They are treated as having opted out and as the scheme would no longer be a qualifying scheme, they will have to be re-enrolled into a qualifying automatic scheme on the three year anniversary. The employer must keep full records of the jobholder's decision in accordance with the safeguarding rules and prevention of inducements.

For more information, please call us on 01223 720 209 or email info@nwbrown.co.uk