FACTS & FIGURES

CHARTERED FINANCIAL PLANNERS

Automatic Enrolment into Pension

2015/ 16

EXECUTIVE SUMMARY

Auto enrolment is coming. The larger your firm the sooner it arrives. But as an employer you will have to:

- Identify and stratify workforce by age and wage
- Establish qualifying workplace pension(s)
- Communicate with workforce
- Register with regulator
- Auto enrol eligible workers every three years
- **ONE YEAR LEAD TIME** RECOMMENDED

All employers will have to contribute and participation is not optional. Employees cannot be encouraged to opt out. 1.3m employers of c 11 million employees will all be grappling with this issue soon. In 2015 c 125,000 employers a month will be trying to set up a new scheme and get it registered – it's all on line. It will be interesting to see how the various websites perform.

There are up to 28 employer duties. Non-compliance leads to significant fines, but the bigger risk is reputational damage if employers are seen to be getting it wrong…

FACTS & FIGURES' SOLUTION

We do it all for you. Send us your payroll spread sheet and

- We stratify your workforce
- We tell you when you have to play
- We tell you your payment options
- We organise a plan or plans
- We tidy up any old plans
- We liaise with the regulator
- We help your HR department/ management/ you…
- We organise all the record keeping

Contact the Facts & Figures team on 01233 722922 or at ifa@fffp.co.uk

Check the employee benefit section of our website www.fffp.co.uk

INTRODUCTION

The recession has exhausted the public purse and there is already talk of a state pension age of 70. Given the state of public finances the government believes it essential to "encourage" individuals to provide for their own retirement. Putting the onus on employers to:

a) Provide a qualifying workplace pension

b) Automatically enrol staff

c) Contribute a minimum of 3% of qualifying earnings (QE) to the pension

This is designed to significantly increase pension take up through inertia.

This is far more onerous than previous (now defunct) requirements for employers of over 5 people to present staff with information and facilitate employee payments to Stakeholder plans through payroll.

NB You, the employer have to work out who's who? Qualifying workers, non-eligible workers and entitled workers.

AUTOMATIC (AUTO) ENROLMENT & TIMING

Effective 2012 employers will have a duty to auto enrol ***eligible workers*** with ***qualifying earnings*** into a ***qualifying workplace pension arrangement*****.**

- An eligible worker is an employee working or ordinarily working in the UK, who is aged between 22 and state pension age (SPA) and who has qualifying earnings above the income tax personal allowance (£10,000 in 2014/15)
- Qualifying earnings include earnings from salary, overtime, commission, bonuses, sick pay, maternity, paternity and adoption pay.
- A qualifying workplace pension arrangement is a plan that facilitates auto enrolment and complies with certain technical requirements (default fund, no application form, etc.)

The new duties phased in from 1 October 2012. Individual employers' own duties are being introduced gradually over the following four years and will be based on the size of the employer, and by PAYE reference number. The relevant date is known as the "staging date" (see below for the list of staging dates).

The earliest staging date applicable to a firm with fewer than 50 employees is 1st June 2015.

The key issue for employers is that they must auto enroll all eligible jobholders, deduct a contribution from their salary and pay 3% of qualifying earnings - whether the employee wants to join the plan or not.

As well as auto enrolling eligible workers, employers must also put certain other workers into a pension scheme, if these individuals ask. What the employer will need to do depends on the type of worker.

Non eligible workers have a right to 'opt in' to an auto enrolment scheme and the employer is required to arrange this and make employer contributions. They are:

- Aged between 16 & 21 or State Pension Age (SPA) and 74
- Working in the UK
- Earning over £10,000

  or
- Aged 16-74
- Working in the UK
- Earning above £5,824 but below £10,000

Entitled workers have a right to 'join' any scheme but there is no requirement on the employer to make employer contributions in respect of these workers; although the employer must set up the deduction of the worker's contributions from pay. They are:

- Aged 16-74
- Working in the UK
- Earning below £5,824

If an employee's income is at the rate of £10,000 per annum in one pay period auto enrolment <u>may</u> be necessary. If it is at that rate for 3 consecutive months it will be <u>mandatory</u>.

SCHEME SELECTION:

Employers may use an existing pension 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, including those that employ low to medium earners, can access pension saving and comply with their automatic enrolment duties.

Whether the scheme an employer uses for automatic enrolment is new or not, it must meet certain, specific criteria set out in legislation. The scheme cannot:

- Impose barriers, such as probationary periods or age limits for members
- Require staff to make an active choice to join or take other action, e.g. having to sign a form or provide extra information to the scheme themselves, either prior to joining or to retain active membership of the scheme.

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

STAGING DATES

Employer Payroll size	Staging Date
250 or more	1 October 2012 to 1 February 2014
50-249	1st April 2014 to 1st August 2015
Fewer than 50	1st August 2015 to 1st April 2017
New Companies established after 1st April 2012	1st May 2017 to 1st February 2018

FINANCIAL COST

Unless individuals decide to opt out the following minimum contributions must be made on qualifying earnings (currently between £5,824 and £42,385) on full implementation:

- Employers will have to contribute at least 3%,
- Employees 4%
- The government will offer a 1% tax break on employee contributions.
- A total of 8% will thus be remitted

The minimum contribution levels (based on qualifying earnings) will be phased in between October 2012 and October 2018. Tax relief will be adjusted accordingly.

- To 30th September 2017 - Total minimum of 2% of qualifying earnings with at least 1% from the employer.
- 1 October 2017 to 30 September 2018 - Total minimum of 5% of qualifying earnings, with at least 2% from the employer.
- From 1st October 2018, total minimum of 8% of qualifying earnings, with at least 3% from the employer.

In effect an employer will have to pay:

- 1% of qualifying earnings between staging date and September 2017
- 2% of qualifying earnings between October 2017 and September 2018
- 3% from October 2018

Note the employer will receive corporation tax relief on its element of the contribution and no NI is charged on pension contributions.

ADMIN

The Regulator will write to all employers around 12 months before their staging date so that they know when to automatically enrol their eligible jobholders. Three months before the employer's staging date the Regulator will write again to remind them of the new duties and the need to register.

Employers with more than one PAYE scheme will start their duties for all their PAYEs at the same time, on the staging date of their largest PAYE.

NEST

The rules regarding auto enrolment are that employees must be auto enrolled into a qualifying workplace pension; not that they must be auto enrolled into NEST. Due to its restrictive nature Facts & Figures regards NEST as unsuitable for many employers and employees.

Employers will have to refund 1st month's premium if an employee opts out within a month and then re auto enroll that same employee every three years thereafter…

EMPLOYER DUTIES

Providing a workplace pension is straightforward, but complying with the complex auto enrolment regulations is anything but - as demonstrated by the following list of employer obligations. Any existing arrangements must be measured against the auto enrolment regulations and it is anticipated that the vast majority of companies will have to make adjustments to any existing arrangements.

To comply employers must:

1. Well in advance (and we recommend 12 months) of staging date assess workforce to establish scope of duty to each employee
2. Provide initial information to employees
3. Select an appropriate qualifying workplace pension
4. Select a default fund
5. Register with the Pensions Regulator
6. Provide scheme with employee information
7. Provide existing employees with specific information on the appropriate qualifying scheme (note different types of staff require different information)
8. Deal with employee queries regarding auto enrolment
9. Deal with employee queries regarding the qualifying scheme
10. Auto enrol qualifying staff
11. Process “opt-ins”
12. Process “joiners”
13. Calculate the employer payment
14. Calculate individual employee payments
15. Deduct individual employee payments from payroll
16. Remit employee payments
17. Remit employer payments
18. Obtain refunds for employees who decide to opt out during the formal opt out period
19. Pay refunds to employees who decide to opt out
20. Auto enrol all new staff, dealing with points 2, 3, 4; 6 - 10 and 13 - 19 inclusive
21. Keep track of the ages and earnings of all employees at all times.
22. Keep accurate records on all the above
23. Safeguard individuals
24. Calculate and implement increased payments after circa one year
25. Calculate and implement increased payments after circa year two
26. Re enrol non-member employees every three years
27. The employer must either train staff to comply with these requirements or outsource to an adviser or employee benefit consultant
28. Pay fines in the event of non-compliance

There will be significant fines for non-compliance.

WHICH PLAN?

- Existing money purchase
- Existing final salary
- New money purchase
  - NEST
  - The People’s Pension (B&CE)
  - NOW Pensions – Danish
  - Your own Group Pension
- A mixture of some of the above

Call us now to discuss your optimum solution: 01233 722922