FACTS & FIGURES
CHARTERED FINANCIAL PLANNERS

Automatic Enrolment into Pension

2016

CONSULTANCY SERVICES

Facts & Figures supports a variety of professional advisers and their clients in this complex area. For further information on our services contact Simon Webster on 01233 722922 or sw@fffp.co.uk

EXECUTIVE SUMMARY

Auto enrolment impacts every employer in the country. Employers 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
- **SIX MONTH LEAD TIME RECOMMENDED**

All employers are having to contribute and participation is not optional. Employees cannot be encouraged to opt out. 1.8m employers of c 11 million employees are all having to grapple with this issue. In 2016 c 500,000 employer will be trying to set up and register new schemes – 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 “get it wrong…”

FACTS & FIGURES’ SOLUTION

We support you through the whole process. Send us your payroll spread sheet and:

- We stratify your workforce
- We tell you when you have to engage
- We explain 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 auto enrolment 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 exposed the weakness of the public purse. There is already talk of a state pension age of 70. Given the state of public finances there is broad, cross party agreement that it is 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) Ultimately contribute a minimum of 3% of qualifying earnings to the pension

These rules are significantly more onerous than the previous (now defunct) requirements for employers of over 5 people to present staff with information and facilitate employee payments to Stakeholder plans through payroll.

Auto enrolment is specifically designed to significantly increase pension take up through inertia. The take up rate so far is in excess of 85% - far higher than many predicted.

AUTOMATIC (AUTO) ENROLMENT & TIMING

The new duties are being phased in from 1st October 2012. The cost to individual employers will rise gradually in following years. Commencement or "staging" will be based on the size of the employer and its PAYE reference number. The "staging date" is the date from which employers must auto enrol.

N.B. significant preparation is required before that date.

On reaching their staging date employers have a duty to auto enrol ***eligible jobholders*** with ***qualifying earnings*** into a ***qualifying workplace pension arrangement*.**

- An eligible jobholder must be enrolled and is an employee working or ordinarily working the UK, aged between 22 and state pension age (SPA) and with qualifying earnings over the "earnings trigger" currently £10,000.
- Qualifying earnings include earnings in 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 to join…)

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 jobholders, employers must also put other types of employee into a pension scheme if these individuals ask. The two additional groups are **non-eligible jobholders** and **entitled workers**. What the employer actually needs to do depends on the type of worker.

Non eligible jobholders 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

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.

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

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

Employers may check their staging date by visiting the regulator's website below and inputting their PAYE reference number.

http://www.thepensionsregulator.gov.uk/employers/staging-date.aspx

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 5% gross - which is 4% net of
- The government's 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 2017.

- To 5/4/2018 Total minimum of 2% qualifying earnings - at least 1% from the employer.*
- 6/4/2018 - 5/4/2019 Total minimum of 5% qualifying earnings - at least 2% from employer.*
- From 6/4/2019 - total minimum of 8% qualifying earnings- at least 3% from the employer.*

In effect an employer will have to pay:

- 1% of qualifying earnings between staging date and 05/04/2018
- 2% of qualifying earnings between 06/04/2018 to 05/04/2019
- 3% from 06/04/2019

**These dates are currently subject to parliamentary approval.*

Note the employer will receive corporation tax relief on its element of the contribution and no national insurance 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 scheme.

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 relatively 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 of staging date (we recommend 6 months) 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 may 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 the on all the above
23. Safeguard individuals
24. Calculate and implement increased payments after c one year
25. Calculate and implement increased payments after c 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

<u>There will be significant fines for non-compliance.</u>

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

A number of plan managers now charge employers set up or monthly fees…