



Pensions: Automatic Enrolment

Pensions
Factsheet



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To encourage more people to save in pension schemes, the government has placed greater responsibility on employers to provide access to pension provision. In this factsheet we review the responsibilities for employers and what it could mean for your business.

If you would like to discuss how we can assist you, please contact us on 01494 675321 or by email at info@rousepartners.co.uk



What is automatic enrolment?

Automatic enrolment places duties on employers to automatically enrol 'workers' into a work based pension scheme. The main duties are:

- ▶ assess the types of workers in the business
- ▶ provide a qualifying automatic enrolment pension scheme for the relevant workers
- ▶ write to most of their workers explaining what automatic enrolment into a workplace pension means for them
- ▶ automatically enrol all 'eligible jobholders' into the scheme and pay employer contributions
- ▶ complete the declaration of compliance and keep records.

Assessing the types of workers in the business

Whether this is an easy or difficult task depends on the type of business. A business which uses the services of casual workers, very young or very old workers will need to spend some time in analysing its workforce. A business which only employs salaried staff will have an easier task.

A 'worker' is:

- ▶ an employee or
- ▶ a person who has a contract to provide work or services personally and is not undertaking the work as part of their own business.

The second category is defined in the same way as a 'worker' in employment law. Such people, 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 minimum earnings threshold (£10,000 for 2016/17 and 2017/18)
- ▶ 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.

Other workers (non-eligible jobholders) may have the right to either 'opt in' (i.e. join a scheme) and therefore to 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.

The categorisation of workers can be difficult in some circumstances. Please contact us if you are unsure of how to assess the types of workers you have.



What is a qualifying automatic enrolment pension scheme?

Employers are able to comply with their new obligations by using an existing qualifying pension scheme, setting up a new scheme or using the government low cost scheme - the National Employment Savings Trust (NEST).

It is important that the pension scheme chosen will deliver good outcomes for the employee's retirement savings. This may mean that an existing employer's scheme may not be appropriate as it may have been designed for the needs of higher paid and more senior employees. This may mean that NEST for example may be an appropriate scheme for employees who are not currently entitled to be a member of an existing employer scheme.

To be a qualifying automatic enrolment scheme, a scheme must meet the qualifying criteria and the automatic enrolment 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.

To be an automatic enrolment scheme, the scheme must not contain any provisions that:

- ▶ prevent the employer from making the required arrangements to automatically enrol, opt in or re-enrol a 'jobholder'
- ▶ 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.

The second point above 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.

We may be able to advise you on an appropriate route to take. Please contact us.

When does automatic enrolment apply to an employer?

The law came into force for very large employers on 1 October 2012 and has been rolled out with staggered implementation dates by reference to the number of employees.

From October 2017, all new employers have automatic enrolment duties from the date they employ their first member of staff.

An employer can find out their staging at www.thepensionsregulator.gov.uk.

Communicating with your workers

Employers are required to write to all workers (except those aged under 16, or 75 and over) explaining what automatic enrolment into a workplace pension means for them.

There are different information requirements for each category of worker. For an eligible jobholder, the letter must include details of how the employee can opt out of the scheme if they wish. The letter must not, however, encourage the employee to opt out.

The Pensions Regulator has developed a set of letter templates to help you when writing to your employees.



Automatic enrolment of eligible jobholders and payment of 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 but it is possible to postpone automatic enrolment for some or all employees for a period of up to three months. This may, for example, be used to avoid calculation of contributions on part-period earnings.

All businesses will need to contribute at least 3% on the 'qualifying pensionable earnings' for eligible jobholders. However, to help employers adjust, compulsory contributions will be phased in, starting at 1% before eventually rising to 3%.

There will also be a total minimum contribution which will need to be paid by employees if the employer does not meet the total minimum contributions. If the employer only pays the employer's minimum contribution, employees' contributions will start at 1% of their salary, before eventually rising to 4%. An additional 1% in the form of tax relief will mean that there is a minimum 8% contribution rate.

Period	Duration	Employer minimum	Total minimum contribution
1	Employer's staging date to 5 April 2018	1%	2%
2	6 April 2018 to 5 April 2019	2%	5%
	6 April 2019 onwards	3%	8%

What are qualifying pensionable earnings

Earnings cover cash elements of pay including overtime and bonuses (gross) but minimum contributions are not calculated on all the earnings. Contributions will be payable on earnings between the lower threshold of £6,032 and the higher threshold of £46,350 for 2018/19. The earnings between these amounts are called

qualifying earnings. The thresholds are reviewed by the government each tax year.

If we do your payroll, we can help you make these calculations and tell you the deductions from pay and the payments required to the pension scheme.

Declaration of Compliance and keeping records

The Pensions Regulator was established to regulate work-based pensions.

An employer must complete the declaration of compliance within five months of the staging date. In essence the declaration of compliance 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.

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 employees
- help check or reconcile contributions made to the pension scheme.

Pensions Regulator guidance for small businesses

TPR guidance is available for small businesses preparing and complying with their automatic enrolment duties on their website.

Using the guidance employers can follow a step by step process to comply with their duties. The guidance also includes links to tools and resources to help employers meet their duties.



Employers' ongoing duties

Re-enrolment

Employers have a legal duty to re-enrol certain employees back into an automatic pension scheme every three years. The process involves reassessing the workforce and re-enrolling certain employees into their chosen qualifying automatic pension scheme. Employers are also required to complete the re-declaration of compliance with TPR, even if they do not have any staff to re-enrol. Re-enrolment should take place approximately three years after the original staging date.

As part of their re-enrolment responsibilities, employers are required to carry out the following tasks:

- ▶ **Choose a re-enrolment date** – there is a six month window from which to choose a date for re-enrolment. This can be either three months before or after the third anniversary of the original staging date. There is no option to postpone the re-enrolment date.
- ▶ **Reassess the workforce** – the employer will only need to assess employees who were previously auto-enrolled and have subsequently either: asked to leave (opted out) of the pension scheme; left the pension scheme after the end of the opt-out period; stopped or reduced their pension contributions to below the minimum level (and who meet the age and earnings criteria to be re-enrolled). Once the assessment is complete, employers should re-enrol eligible staff into a qualifying pension and start making contributions within six weeks of their re-enrolment date.
- ▶ **Write to those who have been re-enrolled** – the employer will need to write to each employee who has been re-enrolled into the pension scheme. This should be done within six weeks of the re-enrolment date. Template letters are available on TPR website.
- ▶ **Complete the re-declaration of compliance** – the employer is required to complete and submit the re-declaration of compliance with TPR to let them know that they have met their legal duties. This should be done within five months of the third anniversary of the staging date. An employer is required to do this even if they have not re-enrolled any staff into the pension scheme.

Remember, re-enrolment and re-declaration is a legal requirement and failure to comply with the regulations may result in a fine.

Penalties for non-compliance

Employers who fail to comply with their legal duties may be subject to enforcement action. TPR has a range of powers it can utilise when taking action for non-compliance. This can range from warning letters and statutory notices to financial penalties. Fines range from a £400 fixed penalty, to a varying daily escalating penalty of between £50 and £10,000, depending on the number of employees. In the most extreme cases the Regulator may seek a criminal prosecution.

Duties checker TPR guidance

TPR guidance is available for employers to help them comply with their automatic enrolment duties on their website: www.thepensionsregulator.gov.uk/en/employers.

Using the duties checker and the guidance, employers can follow a step-by-step process to comply with their duties. The guidance also includes links to tools and resources.

Changes ahead

In December 2017, following a review of the auto-enrolment system by the Department for Work and Pensions, the government proposed to change the lower age limit from 22 to 18 (while maintaining the upper age limit at the SPA). Under the proposals, those aged between 18 and the SPA would be automatically enrolled into a workplace pension scheme if they earned above £10,000 per year. Workers aged 16 to 18 and employees over the SPA would remain eligible to opt into their workplace pension scheme.

The government is also proposing to remove the lower threshold for qualifying pensionable earnings (£6,032 in 2018/19). Under the plans, employers and employees contributing to pensions via automatic enrolment would make contributions from £1 of earnings rather than from the lower threshold.

The government plans to implement the proposals in the mid-2020s.



How can we help?

Auto-enrolment ready payroll solutions

Our payroll service is ready to handle your auto-enrolment opt-in and opt outs, plus our payroll team can assist you with:

- ▶ Identifying who will be affected – and who will need to be auto-enrolled.
- ▶ Communicating with your staff – as to how they will be affected.
- ▶ Planning for your staging date – to ensure your payroll is ready for auto-enrolment.

Advising on salary sacrifice

Our experienced tax team can advise on tax efficient salary sacrifice schemes that you and your employees can benefit from.

Introducing you to independent financial advisors

We have a good relationship with several independent financial advisors who can advise you on what you need to do to be compliant, and who can provide you with appropriate and qualifying pension schemes, set up your scheme and advise on ongoing compliance.

Please contact us to discuss your requirements.



Please contact us if you have any queries on preparing for auto-enrolment.

Trusted advice, *imaginative solutions.*

It's the old adage that all accountants are the same, but ask yourself this; what kind of service would most add value to your personal or business position? In our opinion, the quality of advice and service is what separates a good accountant from a great one. This is where Rouse Partners can make a difference for you.

Our award-winning team make it their business to get to know you and your specific needs. Whether your goal is to grow your business, increase your personal wealth or improve your work-life balance, by understanding your challenges, we will address them together.

We also know how important it is for you to have a team that you can rely on for timely advice and reassurance. At Rouse, our people are our most important asset and we will select team members who offer an optimum mix of experience, specialism and knowhow. From your Partner, to your Tax Advisor, each team member will be accessible to you or your team and be proactive in seeking solutions.

At the heart of our way of working is a determination to think differently, to challenge the 'status quo' and to ask 'what if?'. Whether you are facing a complex tax, accounting or management situation, we are ready to find a solution.

Contact us today to discuss how we can support your personal or business tax needs:

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