



# A GUIDE TO PENSION AUTO ENROLMENT

**Pension auto enrolment came into force on 1 October 2012. Starting with large employers, it will affect all employing organisations over the course of the next few years.**

## **Background**

Millions of people are not saving enough to have the income they are likely to want in retirement, and whilst life expectancy in the UK is increasing, people are saving less into pensions.

These are challenges that needed to be addressed.

In 1901 there were 10 people working for every pensioner in the UK. In 2005 there were 4 people working for every pensioner. By 2050 it is expected that this will change to just two workers for every pensioner!

A fundamental change to the way that the majority of people save for retirement is needed, and that change is being brought in (with support on both sides of Parliament) through The Pensions Act, 2008.

This document focuses on the new employer duties and what companies are going to have to address to ensure that they are compliant with the new legislation.

## **What are the employer duties?**

All employers operating in the UK must automatically enrol staff into a Qualifying Workplace Pension Scheme (QWPs) who:

- Are aged from between 22 and the state pension age.
- Earn more than the minimum earnings threshold - £10,000 p.a. in the 2014/15 tax year.
- Are not already in a qualifying pension scheme.

For a scheme to be qualifying it must pay a minimum level of contributions. This is covered later in this paper. The qualifying scheme could be an occupational pension scheme, a personal pension scheme, or an approval scheme.

This factsheet has been written for the general interest of our clients. It provides only an overview of the regulations in force at the date of publication. It is therefore essential to take advice on specific issues. No responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this leaflet can be accepted by the firm.

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When you have decided on your pension arrangements, your main duties will be to:

- Register your qualifying scheme with the Pensions Regulator
- Inform existing pension scheme members that they are already in a qualifying scheme
- Tell other eligible employees:
  - o That they will automatically be enrolled into the scheme.
  - o the start date for automatic enrolment, and
  - o that they have the right to opt out
- Auto-enrol all eligible new employees
- Pay the scheme's contributions (employer and employee contributions)

Auto-enrolment is the responsibility of the employer, not the Government or the pensions industry.

The Pensions Regulator will oversee employer compliance and has the power to fine employers for non-compliance.

### What is the timeframe for employers?

The employer duties will be staged in over 6 years from 2012. Larger employers will need to fall in line first and smaller businesses with less than 30 employees will be last and will have their staging date set depending on the last two digits of their PAYE reference number.

In order to avoid a fine, you cannot delay your staging date, but you can usually bring it forward (eg to coincide with a convenient accounting period or your pension scheme renewal date).

A full list of staging dates can be found on the Pension Regulator's website.

### What contribution will have to be paid?

For a pension scheme to qualify under the new regulations, there are rules about the minimum contribution levels required.

There are two qualifying bases: banded earnings and pensionable earnings.

### Pensionable earnings basis

Basis		Up to Oct 2017	Until Oct 2018	From Oct 2018
9 % of Pensionable Earnings	Employer	2%	3%	4%
	Employee*	up to 1%	up to 3%	up to 5%
8 % of Pensionable Earnings	Employer	1%	2%	3%
	Employee*	up to 1%	up to 3%	up to 5%
7 % of Total Earnings	Employer	1%	2%	3%
	Employee*	up to 1%	up to 3%	up to 4%

\* The employee contribution percentage includes Basic Rate Tax Relief.

### Banded earnings basis

The minimum contribution is 8% of a band of qualifying earnings which is currently between £5772 and £41,865 (using the figures for the 2014/15 tax year).

Although it is possible for an employer to pay the whole contribution on behalf of their employees, it is expected that many employers will choose to pay 3%; their employees will make up the difference of 4% with the further 1% coming from Basic Rate Tax Relief.

These percentages apply to the employees' total earnings within the band, so they include overtime and bonuses not just basic pay.

### Pensionable earnings basis

A business may choose one of the following three options as an alternative:

1. Where a minimum of 9% Basic Pay is being invested (with a minimum of 4% being contributed by the employer).
2. Where a minimum of 8% Basic Pay is being invested provided at least 85% of Total Pay is pensionable (with a minimum of 3% being contributed by the employer). This can be calculated as an average at scheme level, rather than per individual.
3. Where a minimum of 7% of all earnings is being invested provided Total Pay is pensionable (with a minimum of 3% being contributed by the employer).

It is worth noting that these percentages represent the minimum contributions necessary to comply with the regulations. Contributions over and above these amounts will still be possible within overall pension planning.

### Is there a gentle approach to the contribution levels?

Yes, there are provisions for a "phasing in" of contributions in order to help with employers with cash flow.

### Banded earnings basis

	Up to Oct 2017	Until Oct 2018	From Oct 2018
Employer	1%	2%	3%
Employee*	1%	3%	5%
<b>Totals</b>	<b>2%</b>	<b>5%</b>	<b>8%</b>

### A note about Nest (National Employment Savings Trust)

Nest is a default QWPS provider, set up at the invitation of the UK Government as a solution for employers who had not set up their own scheme.

It is designed to be a low-cost, no-frills option and is likely to appeal to employers of predominantly lower earners.

As a new entrant into the Defined Contribution market, it is likely that many companies will have at least some of their workforce enrolled into a NEST (or NEST equivalent) scheme.

### A note about 'automatic' enrolment

By far the most important stipulation of the new regulations is that eligible members of the workforce are to be enrolled automatically: the notion being that if it is the default position for employees to be "in" then it will be more likely for them to stay "in".

Should an individual choose not to be "in" the pension scheme, they may choose to opt out (and have one month to decide on this), but only after they have been enrolled!

Should they wish to opt out the employer may not give them the form to do so, but can direct them to the appropriate website for the opt-out form which the employee can complete and hand in.

Everything has been done in order to encourage the employees to remain inside the scheme, and even if they do choose to opt out, the employer must auto-enrol them once more every three years.

### What will happen if I ignore this legislation?

If you are an employer you need to take action. The regulation of this legislation is managed by The Pensions Regulator.

As such, it has a number of duties and powers:

- Preventative – used where there is an immediate or chronic risk to members' benefits.
- Detective – used where they need to investigate the cause or consequences of a particular problem.
- Educative – used where it is clear that the trustees or others do not have the necessary knowledge and understanding to carry out their duties.
- Remedial – used where benefits have been managed and we want to reinstate them.
- Penalties – used to emphasise the importance and value of compliance in protecting members' benefits, and to deter future non-compliance.

Where the regulator feels that a sanction is required, it has the following penalties at its disposal:

- Penalty Stage 1** Warning
- Penalty Stage 2** "Wake up call" – fixed fine £400
- Penalty Stage 3** Persistent offenders – fine based on number of employees (see below)

Size of employer (by employee numbers)	Level of fine
1 to 4	£50 per day
5 to 49	£500 per day
50 to 249	£2,500 per day
250 to 499	£5,000 per day
500 and above	£10,000 per day

All employing organisations will be affected by auto enrolment.

## Key information

### 7 steps to Auto-enrolment

- Know your "staging date" – when to act
- Assess your workforce
- Review your pension arrangements
- Communicate to ALL workers
- Automatically enrol "eligible jobholders"
- Register with the Regulator and keep records
- Contribute to your workers' pensions

**Please contact us if you need any further information or help. We are always happy to offer a completely no cost/no obligation initial meeting.**



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