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A GUIDE TO PENSION AUTO ENROLMENT

Pension auto enrolment came into force on 1 October 2012 and now affects all employing organisations.

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 2018/19 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.

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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 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.

Banded earnings basis
The minimum contribution is 8% of a band of qualifying earnings which is currently between £6032 and £46,350 (using the figures for the 2018/19 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.

The table below shows the minimum contributions you must pay:

Date	Employer minimum contribution	Staff contribution	Total minimum contribution
New rate: 6 April 2019 onwards	3%	5%	8%
Current rate: 6 April 2018 to 5 April 2019	2%	3%	5%

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?

The Pensions Regulator has a variety of powers to investigate, including the power to issue formal notices requesting information or warning of likely breaches, inspection powers, or to issue statutory notices where an employer has failed to meet its duties.

The statutory notices the Regulator may issue are a Compliance Notice, Improvement Notice or an Unpaid Contributions Notice. These notices let an employer know that they are in default and that they must correct the situation and become compliant.

The Regulator may also estimate your unpaid contributions, charge you interest on these, and recover unpaid contributions on behalf of scheme managers and trustees. If a statutory notice has been issued and not complied with, or there is sufficient evidence of a breach of the employer's obligations, the Regulator can issue a Penalty notice. The types of penalty notices include:

- a Fixed Penalty Notice requiring payment of a fixed fine of £400;
- an Escalating Penalty Notice imposing a penalty of £50 to £10,000 per day you are non-compliant (depending on how many workers you employ);
- a Prohibited Recruitment Conduct Penalty Notice at a maximum of £5,000;
- a Civil Penalty Notice (where contributions have not been paid). The relevant fine can be up to £5,000 per individual and £50,000 per organisation.

If you fail to pay a penalty, the Regulator can take legal action to recover it from you. If you remain non-compliant, you could face a criminal prosecution and prison term of up to two years.

All employing organisations are affected by auto enrolment.

Key information

6 steps to Auto-enrolment

- 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.