

**NOTE: CA Plus cannot provide detailed financial advice to any individual about Pensions; to do so you must be registered and regulated by the Financial Services Authority. CA Plus can however, provide general information on Pensions to groups/employers.**

**If need more detailed advice, either for your Group or your employees, you can find a huge resource of information on the Government's Pension Regulator website: <http://www.thepensionsregulator.gov.uk>**

Until recently, there was no statutory obligation on an employer to provide their employees with a pension, or make any financial contribution into an employee's personal pension. This is strictly down to contractual employment rights and employers had discretion to provide one or not (most likely dependant on whether they can afford the extra costs). This has now changed!!

**The Pensions Acts 2008 & 2011, introduced new duties on ALL employers which will require employers to automatically enroll some/all of their workers into a workplace pension scheme that meets or exceeds certain legal requirements. This is being rolled out to all employers (biggest first) from 1<sup>st</sup> October 2012 through to 2018 (for small employers with less than 30 employees, compliance could be anytime between 2015-2018). As a result, the previous requirements to provide access to a Stakeholder Pension have now been dropped in the run up to the new Auto-enrolment Pension Scheme.**

**Note:** The Employment Rights Act 1996, still requires all employers to make a definitive statement in an employee's Main Statement of Terms (contract of employment) concerning what pension rights they provide to their employees (or do not).

### **What's Changing?**

The Government's concern that most people are still not saving for retirement has led to a number of new duties for employers surrounding pension scheme membership for their employees. These responsibilities linked with employer contribution rates could mean unprepared employers facing real challenges over the next few years. It is estimated that some 7 million people are not saving enough to give them the retirement income they would like or indeed expect.

### **What Is Auto-Enrolment?**

Auto-enrolment will mean workers will have to be automatically enrolled by their employer into a qualifying pension scheme without any active decision on their part. At present, many workers fail to take up valuable pension benefits because they do not make an application to join their employer's scheme. Auto-enrolment is meant to overcome this.

Subject to the employer's own introduction (staging) date, all "**eligible**" workers will have to be auto-enrolled into a qualifying pension scheme. For small employers with less than 30 employees, it will be sometime between 2015 – 2018 Employers can choose the qualifying scheme they wish to use, which could include the Government set-up NEST Scheme (National Employment Savings Trust), or one via the Financial/Pension industry. Each qualifying scheme must meet minimum standards in respect of the benefits it provides or the amount of contributions paid to it. The scheme must also provide auto-enrolment for all eligible workers and for all new workers when they become eligible.

Employers can find out their staging date by visiting the Pensions Regulator website:  
<http://www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx>

## **The Basics**

Under these duties, employers will have to:

- enroll **eligible workers**\* into a qualifying workplace pension arrangement;
- choose the qualifying scheme(s) they adopt to discharge the newly arising duty; and either
  - a) make a minimum 3% contribution towards a defined contribution scheme (based on qualifying pensionable earnings) such as NEST (the National Employment Savings Trust) or
  - b) offer membership of a defined benefit scheme or certain hybrid schemes which either has a contracting out statement or meets the test scheme standard.

**\*An eligible worker is a job holder aged between 22 and state pension age (SPA) and earning above the income tax personal allowance, £10,000 in '15/16. Contributions will be payable on their qualifying earnings between £5,824 and £42,385 pa.**

Employers will also have an ongoing duty to maintain qualifying pension provision for workers who:

- are already members of qualifying schemes; or
- become members of that scheme

## **Minimum Contributions For DC Schemes and NEST**

Where a worker is automatically enrolled in a defined contribution (DC) scheme or NEST pension, there must be a minimum total contribution of 8% of qualifying earnings, of which the employer must pay a minimum of 3%. If the employer chooses to pay the minimum 3%, **the worker will pay 4%**, with a further 1% paid as tax relief by the government. (Qualifying earnings is earnings between £5,824 and £42,385 pa).

However, these minimum contribution levels will also be phased in between October 2012 and April 2019.

October 2012 to 5<sup>th</sup> April 2018 - total minimum of 2% of qualifying earnings with at least 1% from the employer.

6<sup>th</sup> April 2018 to 5<sup>th</sup> April 2019 - total minimum of 5% of qualifying earnings, with at least 2% from the employer.

From 6<sup>th</sup> April 2019, total minimum of 8% of qualifying earnings, with at least 3% from the employer.

## **Opting Out**

Workers will be able to voluntarily opt-out of their employer's scheme if they choose not to participate. Workers who give notice during the formal opt-out period will be put back in the position they would have been in if they had not become members in the first place, which may include a refund of any contributions taken following automatic enrolment. Every three years thereafter the employer will have to auto-enroll them back into the qualifying scheme unless the employee has "renewed" their opt-out.

## Non-eligible Workers

**Non-eligible** workers are those aged between 16-21 years, or SPA -74 years and earning above £10,000, or aged 16-74 and earning above £5,824 but below £10,000 pa.

For these workers, the employer has a duty to provide information about the workplace pension scheme they offer and auto-enrol any worker who then wishes to voluntarily “opt-in” to the scheme. If they chose to opt-in, both employer and the worker have to make the same the same financial contributions as for eligible workers.

## Entitled Workers

In addition to the auto-enrolment requirements for **eligible** and **non-eligible** workers, employers also have obligations to those persons earning below the £5,824 threshold where auto-enrolment does not apply.

In this case, the employer has to notify all these **entitled** workers that they are also entitled to a workplace pension if they want one. This pension however, does not have any auto-enrolment obligations and the employer does not have to make any financial contribution to it. *(This is very similar to the old Stakeholder Scheme other than it now applies to all **entitled** workers, even if just one!)*

The following table may help clarify:

Gross earnings			Age		
Annual	Monthly	Weekly	From 16 to 21	From 22 to SPA*	From SPA to 74
£5,824 and below	£486 and below	£112 and below	Has a right to join a pension scheme <sup>1</sup>		
Over £5,824 up to £10,000	Over £486 up to £833	Over £112 up to £192	Has a right to opt in <sup>2</sup>		
Over £10,000	Over £833	Over £192	Has a right to opt in <sup>2</sup>	Automatically enrol <sup>3</sup>	Has a right to opt in <sup>2</sup>

Figures correct as of 2015/2016. \*SPA = state pension age

<sup>1</sup> Has a right to join a pension scheme (these people are ‘entitled’)

If they ask you to, you must provide a pension scheme for them, but you don’t have to pay contributions.

<sup>2</sup> Has a right to opt in (these people are sometimes called ‘non-eligible’)

If they ask to be put into a pension scheme, you must put them in your automatic enrolment pension scheme and pay regular contributions.

<sup>3</sup> Automatically enrol (these people are ‘eligible’)

You must put these members of staff in your automatic enrolment pension scheme and pay regular contributions. You don’t need to ask their permission.

## Enforcement and Penalties!

Government is hoping that enforcement of the new Pension arrangements will be minimal, but current levels of knowledge and understanding amongst employers does not appear high.

It is anticipated that the Pensions Regulator will work with private company Capita to have an enforcement role. Warnings will be given initially, but if employers refuse or do not comply; fines can be levied, not just on the employer but also any responsible employees within the business. In extreme cases, criminal prosecutions can take place with jail sentences!!

A further compliance requirement is that employers must not offer any inducements to their workers to opt-out of the pension scheme. Similarly, as from June 2012, employers must not operate any recruitment practices that can be seen to disadvantage any applicant due their pension views, needs or anticipated enrolment.

### **Payroll Processing**

One aspect of the Auto-enrolment Pension process that does not get much mention is the practical interface between the payroll processing system and the chosen Pension Company for the collection of weekly/monthly pension contributions. At each pay period (weekly/fortnightly/ monthly etc.) all gross pay data for your workers has to be assessed to identify those eligible/non-eligible workers that may need to be enrolled and what pension deductions have to be made. This pay data has to be processed, not only to produce the pay slip, but all the pay information has to be sent to the pension provider so that they can deduct the necessary pension contributions by Direct Debit.

To ensure that this process is as automated as possible, CA Plus is in the process of identifying certain preferred pension providers whose systems are compatible with our payroll processing software. It is hoped that by using one of those preferred providers this will reduce your additional payroll processing costs to a minimum. Whilst employers are free to choose whatever pension provider they wish, it should be borne in mind this could have a considerable cost penalty when it comes to payroll processing if systems are incompatible.

### **And finally...**

Talk about government desire to reduce red tape! This is probably the most complex administrative burden on employers we have ever seen. You must start planning for this early on. DO NOT WAIT any longer.

Please look at the pension Regulator Website and at least follow their Step by Step Guide.

Good Luck.....

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