



# Crawfords

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# What you need to do to get ready for your auto enrolment start

The start date may be nearer for you than you think... In the next few months you may receive a letter from The Pensions Regulator reminding you of the start of auto enrolment for your business. Whether you have one employee or 1,000 employees, auto enrolment places significant responsibilities on an employer. Employers will need to enrol many of their employees into a work based pension scheme and pay some pension contributions.

## When does auto enrolment apply to an employer?

You can precisely work out when the auto enrolment rules will have to be applied as the implementation date (known as the 'staging date') is set by reference to the number of persons in an employer's PAYE scheme on 1 April 2012. Many large employers have already had to implement auto enrolment.

For those with less than 50 employees the earliest start date is 1 June 2015. The precise date will depend not only on the actual number of employees on 1 April 2012 but also on the employer's PAYE reference number. The earliest date for an employer with up to 30 employees on 1 April 2012 is 1 June 2015 and the latest date is 1 April 2017.

Importantly, it does not matter how many employees an employer has on the staging date - there may be considerably more (or less) than on 1 April 2012. So if you are an employer, look at the number of employees you had on 1 April 2012 to know where you stand.

An employer can find out the detailed staging date rules from [www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx](http://www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx)

## What are the duties of an employer?

The main duties are to:

- assess the types of workers in the business
- provide a qualifying auto enrolment pension scheme for the relevant workers

- write to most of their workers explaining what auto enrolment into a workplace pension means for them
- automatically enrol all 'eligible jobholders' into the scheme and pay employer contributions
- register with The Pensions Regulator and keep records.

## What is a worker for auto enrolment?

The term 'workers' includes all your employees but can sometimes include other persons.

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.

## Eligible jobholders

The workers will then need to be categorised into three groups:

- eligible jobholders
- non-eligible jobholders
- entitled workers.

An 'eligible jobholder' is called this because they are eligible for auto enrolment. They are workers who are:

- aged between 22 years and the State Pension age
- earning over the 'earnings trigger'. The annual trigger is currently £10,000 for 2014/15 which is the same amount as the PAYE tax threshold
- working or ordinarily working in the UK
- not already in a qualifying pension scheme.

Note that the earnings trigger has to be considered for each pay period, so if you pay workers monthly, it is the monthly equivalent of the trigger that needs to be considered (i.e. £834 for 2014/15).

## Other workers

'Non-eligible jobholders' have the right to 'opt in' (i.e. join a scheme) and therefore to be treated as eligible jobholders. This means that employer contributions are payable.

'Entitled workers' are also entitled to join the scheme but there is no requirement on the employer to make employer contributions in respect of these workers. The latter two groups are not considered further here.



## How much will it cost?

As part of the auto 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 although there is a postponement facility (see later).

A total minimum contribution of 8% of qualifying earnings is required for eligible jobholders of which employers will need to contribute at least 3%. However, to help employers adjust, compulsory contributions will be phased in, starting at 1% (if the staging date is before 30 September 2017) before eventually rising to 3%.

This means that there will also be a total minimum contribution which will need to be paid by employees if you do not meet the total minimum contribution level. If you only pay the employer's minimum contribution, employees' contributions will start at 1% of their qualifying earnings, before eventually rising to 4%. An additional 1% in the form of tax relief makes up the minimum 8% contribution rate.

The key requirement for you to note as an employer is the prospective cost of 3% of qualifying earnings from October 2018.

## So what are qualifying earnings?

Earnings cover cash elements of pay including overtime, bonuses and statutory payments such as Statutory Sick Pay. Minimum contributions are not calculated however on all the earnings.

Contributions will be payable on earnings between a lower and a higher threshold. The earnings between these amounts are called qualifying earnings. The lower threshold is £5,772 and the higher threshold is £41,865 for 2014/15. The thresholds will be reviewed by the Government each tax year.

Note that the thresholds have to be considered for each pay period, so if you pay workers monthly, it is the monthly equivalent of the annual thresholds that need to be considered (i.e. lower and higher thresholds are £481 and £3,489 per month for 2014/15).

## Example of how the thresholds work

	November	December
Amounts above lower threshold but below higher threshold	£1,519	£3,008
Employer - 3%	£45.57	£90.24
Employee (net contribution) - 4%	£60.76	£120.32
Tax relief on employee contribution - 1%	£15.19	£30.08

## Eligible jobholders and opt outs

An eligible jobholder has the right to opt out of auto enrolment if they wish. This means they will not be required to pay pension contributions but

they will lose the benefit of the employer paying pension contributions as well. Latest evidence on opt outs from the Department for Work and Pensions is that 15% of workers will opt out.

Opt outs will clearly reduce your costs. However you cannot encourage the employee to opt out. For example an employer cannot offer a higher salary to an employee who opts out or deny a promotion to an employee who has not opted out.

## Staging date and postponement

It is possible to push back (by up to three months) the time pension contributions are required to be paid by using postponement. Essentially postponement is the deferral of the assessment of a worker to a later date and therefore the deferral of whichever employer duty that may apply in respect of that worker. It does create some extra work in that information must be given to your workers about postponement within six weeks of the staging date. Also a worker still has the right to opt in to the scheme from the staging date.

## What pension scheme choices are there?

Your responsibility as an employer is to have an appropriate pension scheme. If you want advice to help you make a choice on a scheme you will need to use an Independent Financial Adviser or pension consultant.

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

## Qualifying 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.

## Auto enrolment criteria

To be an auto enrolment scheme, one of the requirements is that the scheme must not contain any provisions that 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.

This 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.

## Choosing a pension scheme yourself

You can choose an appropriate pension scheme yourself. There are three schemes that have

been established to cater for the employer of a small or medium sized business.

## National Employment Savings Trust (NEST)

NEST is a master trust that has been set up by the Government to ensure that employers can access a pension scheme to help them comply with auto enrolment. NEST has a public service obligation, which means it must accept all employers who wish to select it as their auto enrolment scheme provider.

## Now Pensions

Now Pensions is relatively new to the UK but has over 40 years' experience in running a low cost auto enrolment scheme in Denmark.

## The People's Pension

The People's Pension is also new but is administered by B&CE, managers of the largest stakeholder pension in the UK.

## What do I need to tell my workers?

You are required to write to nearly all your workers explaining what auto 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 employers when writing to their workers, which we will be happy to assist with according to your exact requirements.

## Registration and records

An employer must register with The Pensions Regulator within five months of the staging date (or the last day of the postponement period(s) where postponement was used at staging).

An employer must also keep records which will enable them to prove that they have complied with their duties. Keeping accurate records 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.

## How we can help

As you can see pensions auto enrolment is not a straightforward business. Please do contact us for help and advice. We can help you to manage the road to auto enrolment and help you to comply with the requirements when you are in auto enrolment.