

## Business

# Auto-enrolment – what you need to know

**Alan Suggett** delivers a straightforward and no-nonsense guide to the workplace pensions auto-enrolment scheme

To encourage workers to start building up retirement benefits, the government introduced pension reforms through the Pensions Act 2008, which requires all employers to offer workplace pension schemes and to enrol eligible workers.

These reforms have become known as automatic enrolment and the date this takes place is known as the staging date. The Pension Regulator will write to an employer informing them of their staging date; however, employers can confirm their staging date by visiting the Pensions Regulator website and enter the PAYE code.

It is possible to postpone your pension obligation for some or all of your employees by up to three months. You need to inform your employees within six weeks of your staging date if you decide to postpone.

## Contributions

Automatic enrolment makes it compulsory for employers to automatically enrol their eligible workers into a pension scheme. The employer must also pay money into the scheme with minimum contributions from employer and employee being 2% from October 2012, rising to 5% in April 2018 with final minimum contributions of 8% from April 2019.

Some employers may already have a workplace pension and in some cases this may be suitable to fulfil auto-enrolment duties. Many businesses choose a public service obligation scheme (or master trust) such as NEST or People's Pension because they're relatively quick to set up, have low management costs and must accept you – but traditional insurance company schemes tend to have many more investment options for staff on higher incomes.

For those schemes, employers may wish to consult an independent financial adviser. Member charges on defined contribution schemes must not exceed 0.75% to be considered auto-enrolment compliant.

## The idiots' guide to auto-enrolment

An employer has to enrol full- or part-time employees in a workplace pension scheme if they:

- Are not already in a suitable workplace pension scheme
- Are at least 22 years old but under state pension age
- Earn more than £10,000 a year (tax year 2015-16)
- Work in the UK.

## Employee categories

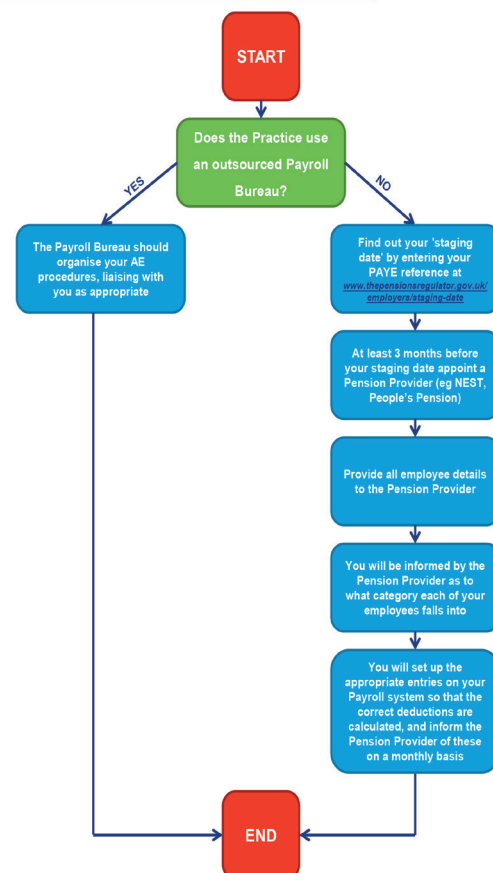
Employees will fall into four categories and employers will need to assess their workforce to identify which employees need to be enrolled. The four categories are:

**Eligible job holders** – will be automatically enrolled into the workplace pension scheme, if they are not already active members of a workplace pension scheme that meets a set of minimum standards as outlined above.

**Non-eligible job holders** – do not have to be automatically enrolled in the employer's workplace pension scheme, but do have the right to ask to join the scheme. They may also receive employer contributions. Non-eligible job holders are workers who:

- Are aged either between 16 and 21, or aged between state pension age and 74
- Earn over the earnings threshold, currently £10,000 per year
- Work, or ordinarily work in the UK and have a contract of employment (ie, an employee and not a self-employed contractor) or who have a contract to provide work and/or services personally (so can't sub-contract to a third party). Or:
- Are aged between 16 and 74
- Earn between the lower earnings amount of currently £5,824 per year and the earnings threshold of currently £10,000 per year
- Work, or ordinarily work in the UK and have a contract of employment or who have a contract to provide work and/or services personally.

### The Idiots' Guide to Auto-Enrolment



### Auto Enrolment Employee Categories



|     |          | INCOME     |                  |              |
|-----|----------|------------|------------------|--------------|
|     |          | 0 - £5,824 | £5,824 - £10,000 | £10,000 +    |
| AGE | 16 – 21  | Entitled   | Non Eligible     | Non Eligible |
|     | < 22     | Entitled   | Non Eligible     | Non Eligible |
|     | 22 – SPA | Entitled   | Non Eligible     | Eligible     |
|     | SPA – 74 | Entitled   | Non Eligible     | Non Eligible |
|     | > 74     | No rights  | No rights        | No rights    |

SPA – State Pension Age

**Eligible** – automatically enrolled (with employer contributions)

**Non Eligible** – no automatic right but have the right to join on request (with employer contributions)

**Entitled** – have the right to join a workplace pension scheme, but not the same one as the above categories. The employer is not compelled to pay contributions

**No rights** – does not have any rights to join an employers pension scheme

**Entitled workers** – have the right to ask to join a workplace pension scheme, but this does not need to be the same scheme as eligible job holders and non-eligible job holders. It could be a personal pension or another type of pension scheme. The employer is not required to make contributions to an entitled worker's pension scheme, although it may choose to do so. Entitled workers are workers who:

- Are aged between 16 and 74
- Earn less than the lower earnings amount of currently £5,824 per year
- Work, or ordinarily work in the UK and have a contract of employment or who have a contract to provide work and/or services personally.

A worker who is none of the above does not have any rights to join an employer's pension scheme, but can save towards their retirement by taking out a pension scheme, such as a personal pension or stakeholder pension themselves.

## Assessment – payroll?

There are a number of options available to employers to assess their workforce. Payroll software can offer the functionality to do this, the benefits being that all the necessary data is already present at source to allow the assessment to take place. Reports and files can be produced to facilitate the transfer of information to the employees' pension accounts and payment taken by direct debit.

In some cases the pension scheme provider may offer an assessment solution or provide assessment services or web-based platforms to perform the assessment. However, employee data will need to be transferred or input for the assessment before receiving the results and applying them to the payroll and making the correct pension deductions.

## Right to opt out

Once an employee (eligible job holder) has been enrolled into a workplace pension, they have the right to opt out. If

an employee opts out of the scheme within one month of being automatically enrolled, they will be treated as if they had never joined the scheme, and any money that has been paid into the scheme will be refunded in full.

An opt out from the pension scheme normally lasts for three years.

Within five months of the staging date employers must complete a declaration of compliance. Declaration is mandatory even if they do not have any staff to enrol. The declaration should be completed within five months of the staging date and provides a snapshot of the workforce at the staging date.

For many employers, fulfilling their auto-enrolment duties can be quite daunting in respect of both administration and costs. There are a large number of pension schemes and providers to choose, from low cost providers to pension schemes offering a range of investment options.

It is clear that auto-enrolment brings additional duties. Planning ahead is crucial to effectively introducing auto-enrolment into a business, but by utilising both the resources of payroll software and pension providers the administration of auto-enrolment can be less of a headache. **D**



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