Barnett Waddingham

Auto-Enrolment and Workplace Pension Reform

Information sheet No.1 – Summary of auto-enrolment and minimum contribution requirements

The Pensions Act 2008 laid the foundations for a fundamental change to workplace pensions in the UK. Under the reforms, every employer will be required to automatically enrol their eligible jobholders into a pension scheme and to pay contributions to that pension scheme.

Since the framework for these reforms was introduced, there have been extensive consultations with regards to their detailed implementation. Most recently, following the change in Government in 2010, an independent review was commissioned to consider whether the scope of the reforms struck the right balance between the costs and benefits to both employers and individuals. The review made a number of recommendations intended to reduce the burdens on business.

Following consideration of the review, the Department of Work and Pensions begun a consultation in July 2011 to put in place the legislation needed to complete these reforms. This consultation is intended to provide as much certainty as possible about the entire framework, and includes all of the draft regulations expected as well as explanations of what will be required.

In summary:

- Every employer must automatically enrol their employees into a pension scheme if they are between age 22 and State Pension Age, earn more than the minimum threshold (£7,475 pa in 2011/2012) and work in the UK. If employees meet these requirements they are known as "eligible jobholders".
- The requirement to "auto-enrol" will be introduced over a period of four years starting in October 2012, depending on the size of the employer. The largest employers will be subject to the requirements first, followed by medium and then small employers.
- Any pension scheme used for auto-enrolment (whether it is defined benefit, defined contribution or a hybrid arrangement) must meet minimum quality standards set by the Government. In particular, for "defined contribution" pension arrangements, employers are required to pay a minimum level of contribution for each employee.
- Employees who earn less than the minimum threshold for auto-enrolment and/or fall outside of the age range will be able to opt into a pension scheme if they wish. If they do so, their employer will have to pay minimum contributions on the same basis as if they were earning above the minimum threshold.
- Employees can opt-out of the pension scheme if they wish. Employers are obliged to re-enrol eligible jobholders every three years, to give those who have opted-out the opportunity to reconsider their position.
- A new pension scheme, the National Employment Savings Trust ("NEST"), has been established. This pension scheme is available for any employer who chooses to use it, but is specifically designed for the needs of small employers who do not have any existing pension arrangements in which to enrol their employees.
- There are some limitations to NEST, including a cap on contributions (£4,200 pa in 2011/2012), and transfers in or out will not normally be allowed. These restrictions will be re-considered in a further review planned for 2017.

The final proposals are under consultation and therefore some of the specific elements are subject to change. However, further explanation of the anticipated detail regarding the operation of auto-enrolment is set out in the table overleaf.

These reforms represent one of the most significant changes ever to have been made to workplace pension provision and there are a number of implications for employers and those involved with pensions to consider.

Identify your staging date

Employers should identify their "staging date" – i.e. the date on which they first become subject to auto-enrolment requirements. The staging date dictates when action is required; however, it might be worth considering bringing the staging date forward in some cases.

Consider which pension scheme to use for auto-enrolment purposes

Employers should consider which pension scheme(s) they intend to use for auto-enrolment and check whether it meets the minimum quality requirements for this purpose. If not, amendments will need to be considered well in advance to ensure the pension scheme is ready by the staging date.

If you are currently making changes to your pension arrangements, for example closing a defined benefit scheme and replacing this with a hybrid or defined contribution arrangement, then you should consider auto-enrolment requirements when designing the new arrangement.

Setting up a new pension arrangement

Ten million individuals are expected to be eligible for auto-enrolment, so pension providers and administrators will be processing an unprecedented number of new members. To ensure that the introduction of the auto-enrolment process works smoothly, the chosen provider should be approached in plenty of time to ensure the arrangements are ready by the staging date.

Mitigating cost increases

Employers should understand any potential increase in costs and consider taking mitigating action, for example re-designing aspects of the pension scheme or renumeration strategy to achieve a lower overall cost per pension scheme member.

Employers can use several pension arrangements for auto-enrolment purposes if they wish. For example, an employer may wish to have different benefit tiers in their main defined benefit or defined contribution arrangements for different levels of permanent staff, and use a defined contribution plan or NEST to facilitate minimum contributions for staff on short-term or flexible working contracts.

Auto-enrolment and corporate transactions

If you are considering purchasing another company, auto-enrolment should be taken into account when assessing the potential pension costs associated with that company. Auto-enrolment will significantly increase pension costs for some companies, which in turn could have an impact on profitability.

Payroll and HR processes

Employers should ensure that their payroll systems, employee communications and other HR processes are ready for auto-enrolment well in advance of their staging date.

Further detail in relation to the auto-enrolment regime

Overview

What is auto-enrolment?	Under reforms originally introduced in the Pensions Act 2008, every employer will be required to automatically enrol eligible jobholders into a pension scheme and to pay contributions to that pension scheme.
Why is the Government introducing these reforms?	Automatic enrolment was one of the key recommendations of the independent Pensions Commission, which reported in October 2004 and November 2005, in response to findings that people are living longer and not saving enough to provide an adequate income in retirement.
Which employees will need to be auto-enrolled?	Employees will need to be auto-enrolled if they: • are not already in a "Qualifying Workplace Pension Scheme" (i.e. a pension scheme providing minimum retirement benefits) • are at least 22 years of age • have not reached State Pension Age • earn more than the minimum earnings threshold (£7,475 pa in 2011/2012), and • work or ordinarily work in the UK.
What is the minimum level of contribution?	In very broad terms, the minimum total contribution will be 8% of "qualifying earnings". Of this, employers must pay at least 3% of qualifying earnings. However, this is being phased in over time and is subject to a number of considerations which are set out in more detail below.
When are the reforms being introduced?	The reforms are being introduced over a four year period beginning in October 2012. The largest employers will be subject to the requirements first, followed by medium and then small employers.

Timing

How do I know when I am affected?	Each employer has a date on which they have to begin the process of auto-enrolment. This is referred to as their "staging date".
How is the staging date determined?	The staging date is determined based on an employer's PAYE scheme. For example: • The largest employers (more than 120,000 employees in their PAYE scheme) will have a staging date of 1 October 2012. • The smallest employers (fewer than 50 employees) will have a staging date between 1 March 2014 and 1 February 2016 depending on their PAYE reference number. • Other employers will have a staging date between 1 October 2012 and 1 July 2014 depending on the exact number of employees in the PAYE scheme. • New employers from 2012 onwards will have a staging date during 2016, depending on when they first have employees in their PAYE scheme. Full details of staging dates are set-out on the DWP website: www.dwp.gov.uk/docs/staging-dates-by-employer.pdf.
How can I be certain when my staging date is?	The Pensions Regulator will write to all employers twelve months before their staging date so that they know exactly when they will be subject to the auto-enrolment requirements, and will remind employers again three months before their staging date.
What if I have more than one payroll?	Generally employers with more than one PAYE will start their duties for all their PAYEs at the same time, based on the staging date of their largest PAYE.
Can I decide to start auto-enrolling before my staging date?	Yes. Some employers may wish to align their staging date with another key date in their operational calendar, say the start of their financial year. Larger employers (i.e. those with over 50,000 employees) can choose to start auto-enrolling employees from 1 July 2012. Other employers can begin auto-enrolling employees from 1 October 2012, subject to restrictions prescribed by the Pensions Regulator. Employers wishing to make use of early auto-enrolment must notify the Pensions Regulator at least one month before their proposed new staging date.

Further detail in relation to the auto-enrolment regime continued

Minimum contribution requirements

How are the minimum pension contributions being introduced?

To ease the burden on employers and individuals who have not previously paid pension contributions, the minimum contribution of 8% of qualifying earnings is being introduced in stages as set out in the following table:

Period	Minimum total contribution
1 October 2012 to 30 September 2016	2%
1 October 2016 to 30 September 2017	5%
1 October 2017 onwards	8%

How much of this must the employer pay?

The minimum employer contribution is also being introduced in stages :

Period	Minimum employer contribution
1 October 2012 to 30 September 2016	1%
1 October 2016 to 30 September 2017	2%
1 October 2017 onwards	3%

How are qualifying earnings determined?

Qualifying earnings are based on an employee's total earnings (i.e. salary, overtime, bonus payments etc) over a minimum level and up to a maximum level.

What are the minimum and maximum level of qualifying earnings?

The minimum is £5,035 pa and the maximum is £33,540 pa in 2006/2007 terms. The final earnings thresholds will be confirmed in January 2012 and thereafter reviewed each year and increased broadly in line with other thresholds used for tax and National Insurance purposes.

Over what period are qualifying earnings measured?

Earnings are compared against the thresholds based on when the earnings are paid, in accordance with an employer's normal pay period. So, for example, where earnings are paid on a monthly basis, they are compared with the equivalent monthly thresholds which are currently £420 and £2,795 respectively in 2006/2007 terms.

Can the employer and employee pay more if they wish?

Yes, the contributions above are only the **minimum** contributions. Both the employer and the individual can pay more than this, if they wish. If the employer pays more, the contributions payable by the individual can be lower as long as the total contribution is at least equal to the minimum.

Further information

If you require assistance with any of the issues set out above, please contact your usual Barnett Waddingham consultant or email autoenrol@barnett-waddingham.co.uk

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