

Automatic Enrolment Guide



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Introduction – The Basics

In October 2012, workplace pension reform was introduced in an attempt to reduce difficulties arising from increased life expectancy and low pension savings. Employers will be required to automatically enrol eligible workers into a qualifying pension scheme from their staging date, which is dependent on the size of the business, namely the number of staff employed.

It is vital that employers are aware of their duties to automatically enrol eligible employees into a workplace pension scheme, and that both the employer and employee will be required to make contributions, unless the employee opts out of their own accord.

Employers must make contributions to a qualifying pension scheme, which must meet certain standards. Qualifying plans can be in place before an employer's staging date, as early adoption is likely to have a positive impact on the workforce, and removes any late rush towards compliance that an employer may have to undertake if they leave it until the last minute.

Automatic enrolment is not just a pension issue – it impacts human resources, payroll and finance functions, so the process could be costly and resource intensive.

You must ensure you are prepared early – select a pension scheme, ensure your systems and processes can cope with the new requirements and that communication is made to employees.

The following guide is designed to give an insight into the requirements of automatic enrolment, and aims to help you develop a plan to deal with your own automatic enrolment obligations. But before we delve into the detail of Automatic Enrolment, you may find the following summary useful:

Up to 12 Months Prior to Staging

- Know your staging date & plan for staging
- Agree a scheme with a pension provider and speak to a professional advisor
- Choose appropriate software or a capable payroll agent.

Up to 6 Months Prior to Staging

- Agree with a provider on a pension scheme
- Ensure systems and records are compliant and up to date.
- Implement appropriate software or engage a capable payroll agent.
- Communicate with staff

From Staging Date & Just Prior

- Register with the Pensions Regulator
- Run appropriate software/liaise with capable payroll agent
- Assess workforce to understand which workers are affected

Automatic Enrolment

- Keep compliant records
- Ensure systems and reporting are accurate
- Ensure appropriate submissions are being made on a regular basis.
- Submit a declaration to The Pensions Regulator once any postponement period has ended

Employers

Obligations & Administrative duties

Automatic enrolment means that employers will, from their staging date, be obliged to:

- Know their staging date
- Review current pension arrangements and, where necessary, choose a qualifying pension scheme to discharge the duty and enrol qualifying employees into the scheme
- Assess their workforce to check which employees (jobholders) will fall under automatic enrolment (See Employees section), and inform them as such
- Enrol all eligible jobholders & non-eligible jobholders who request to be enrolled
- Inform jobholders they have been automatically enrolled & have a right to opt out
- Provide entitled workers with access to pension scheme if they request it
- Make a minimum contribution of up to 3% towards the scheme (see later)
- Responding to opt out requests & arranging full refunds
- Maintain qualifying pension provisions for employees who are already members or become members later.
- Keep a track of age and earnings
- Periodically re-enrol any eligible jobholders
- Register with the Pensions Regulator and maintain records relating to each scheme & jobholder.
- Provide personal information about each jobholder to the pension scheme before staging, including name, gender, date of birth and NI Number, among other things.
- Ensuring contributions are paid by 22nd (electronic payments) or 19th (cheque/cash) of the month, as with PAYE payments.

As you can see, this is quite a large list of new duties and obligations for any employer. We recommend that you ensure your administrative team is up to date with the requirements of automatic enrolment in order to enable a smooth transition into automatic enrolment.

Information & Communications Duties

Employers will have certain duties with regards to holding information and passing information to employees, the pension scheme and the Pensions Regulator. These are as follows:

Within One Month Of Automatic Enrolment/Opt In

- Enrolment Information to employees

Automatic Enrolment

- Personal Pension Terms & Conditions to employees
- Jobholder Information passed to scheme

Within 2 months of becoming eligible

- Existing member information to scheme/regulator

Within 1 month of acquiring the right to opt in

- Non-eligible jobholders opt in information
- Entitled workers opt in information

Workers

Workers must be provided with information with regards to their relevant category. Entitled workers must be informed that they can request to join, non-eligible jobholders that they can opt in and eligible jobholders that they will be automatically enrolled & that they have a right to opt out. Eligible jobholders should also be given information about the scheme to which they are enrolled.

Checking Your Staging Date

It is imperative that you know what your staging date is. You can do this via the Pensions Regulator website, as long as you have your PAYE reference number (Employer Reference Number).

The website is: <http://www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx>

You are entitled to bring your staging date forward, if you so wish, but you cannot choose a later date. In order to bring forward a staging date, there are certain conditions which must be met:

- Must have an existing staging date
- Must have contacted a pension scheme that can be used to comply with duties
- Obtain an agreement from the pension scheme that they can operate the scheme from the new staging date
- Must notify the regulator of the new staging date in writing at least one calendar month before the new staging date
- The new staging date must be on the 1st of the month.

The main reason for bringing forward a staging date would be in order to avoid having to run your first pay period of automatic enrolment at a busy time of year for the business. It may also have a positive impact on the workforce, as early adoption means early pension contributions from their employer.

Scheme Registration

An employer must advise The Pension Regulator how they have met their auto enrolment duties and provide details of the scheme within four months of their staging date. This information then has to be confirmed every 3 years.

Automatic Enrolment

Registration is done online via the Government Gateway, so employers or their agents must be registered to file online. You will need a Government Gateway user ID, a Unique Letter Code from correspondence received regarding your staging date and details of PAYE schemes you use.

Penalties And Fines

The Pensions Regulator has the power to levy fines on businesses who do not comply with automatic enrolment. The following penalties may apply:

- A fixed penalty of £400 will be applicable when an employer fails to respond to a warning notice, which may be given when an employer encourages employees to opt out
- Depending on the size of employer, a penalty of £50 to £10,000 per day where an employer fails to pay contributions to the scheme on time (by 19th of the following month)
- A fixed penalty of £1,000 to £5,000 for prohibited recruitment conduct, such as when a job applicant is screened for their intention to join the scheme.

Normally the procedure will be a warning in the form of a compliance notice, followed by a fixed fine if the company is still not compliant, then daily fines.

What Employers Must Not Do

- Induce jobholders to opt out
- Discriminate against employees seeking a pension
- Give advice
- Provide opt out forms for employees
- Offer incentives to workers to opt out or during recruitment in order for new recruits to opt out
- Dismiss workers remaining in the workplace pension

Postponement Period

An employer can choose to use a postponement period of up to 3 months following staging. Eligibility must be re-checked on expiry of the period (known as the deferral date) to confirm that automatic enrolment is due. The deferral date is decided by the employer.

All employees subject to postponement must be informed in a detailed notice containing the deferral date, that they will be automatically enrolled on the deferral date if they are an eligible jobholder and that automatic enrolment has been postponed. The notice can be issued at staging or on the employee's first date of employment.

Postponement cannot be backdated. Selected individuals, groups of employees or all employees can be postponed, but may not opt out during this postponement period. This means that an employer may have multiple postponement periods running at the same time, so care should be taken to ensure each employee's deferral date is known & that their eligibility is checked once their postponement period has ended.

Automatic Enrolment

The reason for postponement is mainly to avoid enrolment of short term workers or those with a temporary spike in earnings. It would also avoid part-period deductions & refunds of deductions made, and gives more time for employers to align their payroll process with automatic enrolment.

Employees can override the postponement period if they wish. Employees can have more than one postponement if, at the end of their initial postponement, they are not eligible jobholders.

Employers should consider using postponement as part of the recruitment process as postponement cannot be used unless the employees have been given notice.

Post Introduction

On a continuous basis, employers must assess employees, manage opt out, opt in & refunds, communicate with workers, send information to pension providers & keep appropriate records.

Record Keeping Requirements

It is now a legal requirement for employers to keep certain records, either in electronic or paper form, for up to 6 years. Opt out records must be kept for 4 years, but employers must keep the following information for 6 years:

Records For Jobholders & Workers Who Become Members

- Name
- National Insurance Number
- Date Of Birth
- Gross Qualifying Earnings in each pay period
- Contributions payable in each pay period
- Date contributions paid to scheme.

Additional Information For Jobholders Only

- Automatic Enrolment date
- Opt In Notice
- Contributions to which the jobholder is entitled under the scheme

Additional Information For Workers Only

- Effective date from which worker became active member
- Joining notice

Postponed Employees

- Name

Automatic Enrolment

- NI Number
- Date notice was sent to worker

Pension Scheme Records

- Employer pension scheme reference
- Scheme name & address
- Scheme Contracting Out Certificate (if applicable)
- Evidence showing scheme meets test scheme standard.

Personal Pension Scheme Records

- Employer pension scheme reference
- Name & address of pension provider

Time Limits

The time limit for completing automatic enrolment is set out in law, and an employer has certain responsibilities to carry out before the end of the 'joining window' (the six week period from the eligible jobholder's automatic enrolment date). An employer must:

- give information to the pension scheme about eligible jobholders
- give enrolment information to eligible jobholders
- make arrangements to achieve active membership for eligible jobholders, effective from their automatic enrolment date. They can do this by making arrangements with either:
 - the trustees or managers of an occupational pension scheme to create active membership under the scheme rules, or
 - the provider of a personal pension scheme, to ensure that eligible jobholders are given the information about the policy that is deemed to exist between them and the pension scheme provider.

With regards to payments, under normal circumstances, pension payments should be made to the relevant pension scheme by 19th day of the month after the deduction if paying by cash or cheque, or 22nd if paying electronically.

Employees

Types of Employee

Employees are classified into 3 separate headings depending on their age and earnings as follows:

Earnings/Age	<21 Year Old	22-State Pension Age	Above State Pension Age
Under Lower earnings threshold	Entitled worker	Entitled worker	Entitled worker
Lower Earnings threshold to £10,000	Non-eligible jobholder	Non-eligible jobholder	Non-eligible jobholder
Above £10,000	Non-eligible jobholder	Eligible jobholder	Non-eligible jobholder

Employees subject to automatic enrolment should work in the UK.

An entitled worker can request to join a scheme (but no contributions from the employer are necessary), a non-eligible jobholder can opt in to an automatic enrolment scheme and an eligible jobholder must be automatically enrolled.

The following people are not classified as workers:

- An office holder
- A serving member of the Crown naval, military or air forces
- A person who is the only employee in a company of which they are also a director (applies when only 1 director is an employee – if more than one director is an employee, all classified as workers)

Date Of Enrolment

Eligible jobholders will be enrolled from the employers staging date. Once this has passed, however, there can be changes to an employees “type” – they may increase their earnings, fall into another age category or another employee may be hired. Enrolment dates can therefore be:

- Company staging date
- First day of employment
- Workers 22nd birthday
- Workers 16th birthday
- First pay day of reference period (weekly, 2-weekly, 4-weekly, monthly etc).

Qualifying Earnings

Qualifying earnings are earnings between the lower & upper earnings limits (see “Useful Links” section). This will be made up of salary, wages, commission, bonuses, overtime, SSP, SMP, SPP and SAP. Earnings should be assessed at each pay period.

Opting Out

Employees may opt out by obtaining a form from the pensions provider. Employers cannot give advice or recommend that an employee opts out of Automatic Enrolment and cannot give opt out forms to employees. They should give information on how to opt out to employees upon enrolment.

There is a one month opt out window which starts on the later of giving the worker the information & achieving active membership. A worker cannot opt out in advance & late opt outs are subject to normal scheme rules. A refund can be received for one month, as it will appear as if they never joined the scheme. The employer should refund the pension contribution as part of the payroll process.

Employers must not act until they are given an opt out notice.

After opting out, employees are re-enrolled every 3 years and so will have to opt out again. A worker can also later decide to enrol after opting out if they so wish.

Employees With Multiple Employments

As with National Insurance, pension contributions are dependent on the employment, not on cumulative earnings. This means that just because an employee is an eligible jobholder with one employer, it doesn't necessarily mean they are with another. Employees' eligibility should be checked by each employer based on their earnings in that employment.

Types Of Pension Scheme & Contributions

Requirements

An employer must provide a Workplace Pension Scheme that automatically enrolls any eligible jobholders into an automatic enrolment scheme from that jobholder's automatic enrolment date, without the need for any action by the worker.

You may have an existing scheme that qualifies for automatic enrolment, however it is recommended that you seek professional advice or contact your provider for confirmation.

Qualifying Schemes

A qualifying scheme must be either:

- A defined benefit scheme – Contracted out schemes will qualify automatically, contracted in schemes will qualify if accrual rates are at least 1/120th of qualifying earnings.
- A defined contribution scheme – The total contribution to the scheme must be at least 8% from April 2019, but different minimums apply if tiered earnings are used.
- An occupational or personal pension scheme
- Be tax registered
- Satisfy minimum requirements.

If you are unsure whether a scheme qualifies for automatic enrolment, a list scheme providers can be found at: <http://www.thepensionsregulator.gov.uk/employers/stakeholder-pensions/registerSearch/SchemeList.aspx>

Please note, not all pension providers will be interested in small employers as they may be unprofitable. For this reason, it is imperative that you ensure you have a scheme agreed well in advance of staging.

NEST

The National Employment Savings Trust is available to all employers and is a qualifying pension scheme established by law following the Pensions Act 2008 to support the introduction of automatic enrolment.

More information about NEST can be found at www.nestpensions.org.uk.

Minimum Contributions

Contributions will be made by both employers and employees on earnings between the lower & upper earnings thresholds. Minimum contributions should be as follows:

Transitional Period	Duration	ER Contribution Minimum	Total Minimum Contribution
1	Staging date – 31/3/18	1%	2%
2	1/4/18 – 31/3/19	2%	5%
1 st April 2019 onwards		3%	8%

Certification Tiers & Tier Phasing

If an employer does not calculate their pension contributions on qualifying earnings, certification allows them to use a different earnings basis with tiers as follows:

- Tier 1 – Based on earnings equal to or greater than basic pay.
- Tier 2 – Based on earnings being at least equal to basic pay and at least 85% of total pay.
- Tier 3 – Based on total pay.

Minimum contribution levels are as follows:

Earnings Basis	Staging to 31/3/18		1/4/18 to 31/3/19		1/4/19 onwards	
	Employer	Total	Employer	Total	Employer	Total
Normal basis	1%	2%	2%	5%	3%	8%
Tier 1	2%	3%	3%	6%	4%	9%
Tier 2	1%	2%	2%	5%	3%	8%
Tier 3	1%	2%	2%	5%	3%	7%

Summary & Impact On Your Business

An employer must:

- Know their staging date
- Nominate a contact
- Decide on postponement
- Assess their workforce & identify employees who need to be automatically enrolled
- Review current pension arrangements
- Have systems in place, particularly with regards to the payroll process
- Communicate changes to employees
- Automatically enrol eligible jobholders
- Register their pension scheme with The Pensions Regulator

Above all, employers should understand the financial implications of automatic enrolment. Employers will be required to contribute at least a set percentage (See “Types of Pension Schemes & Contributions”) towards an employee’s pension. On top of this additional cost, it is likely to cause extra administration costs, as well as ensuring staff keep up with required legislation.

It is important for a company to budget accordingly for automatic enrolment, as the costs can have a large impact on cash flow and profitability.

And Finally...

We cannot stress the importance of preparation enough when it comes to automatic enrolment. It will most likely become a huge part of the administration process for quite a large number of employers, so early preparation is recommended in order to ease the burden and avoid a late push towards compliance.

If an employer prepares early enough for what is a huge change, they can be sure not only that the business will be compliant when it comes to automatic enrolment, but also that they know and are prepared for the additional costs and resources required by this major part of Workplace Pension Reform.

Useful Links

The Pensions Regulator – More detailed information around automatic enrolment, including template employee information, can be found at: www.tpr.gov.uk

The Government Gateway: www.gateway.gov.uk

National Employment Savings Trust: www.nestpensions.org.uk

Department For Work & Pensions – The government branch covering workplace pension reform: www.dwp.gov.uk/pensionsreform

The Pensions Advisory Service – A non-profit organisation offering free information, advice and guidance on pension schemes: www.pensionsadvisoryservice.org.uk

Money Advice Service – an unbiased independent advice service offering advice on an array of money matters: www.moneyadviceservice.org.uk

Seaman, Herbert & Co: www.seamanherbert.com

Qualifying Earnings Thresholds: <http://www.thepensionsregulator.gov.uk/automatic-enrolment-earnings-threshold.aspx>