

Pensions Reform - Auto Enrolment – A Big Deal?

Whether your organisation employs 5 or 5,000 people, the forthcoming Pensions Reform will affect you. In the following case study, we explain the key elements of the reforms and highlight some of the issues that will need to be addressed. The case study is based on a fictitious business with 100 employees, but the points raised will apply to all employers, small or large.



Case Study - ABC Marketing Co:

ABC Marketing Co is a branding and design agency based in London. They currently employ 100 staff. They pay the staff fairly well, as they need to compete with the bigger agencies, but in truth they are a bit light on other benefits. This has never been a problem. The average age of the employees is 28 and they don't complain too often.

As for pensions, they meet the necessary requirements and have a stakeholder scheme in place. They don't generally contribute as an employer, so, no surprise that only a handful of people have joined the pension scheme. The company does make a 5% contribution for the senior management team (four directors) on the basis that they contribute the same.

The directors are hearing a lot of noise about forthcoming pension reforms, hailed as the biggest change to pensions in a generation - and are being encouraged to 'make some plans'. They have asked Fair Care for some advice and have a number of questions that need answering. They did have a quick look at the guidance for employers on the Pensions Regulator website, but reading through the 190 pages (!) seemed a bit daunting.

Their questions, and the answers, are noted in this report

What is Auto Enrolment?

Put simply, the Government is forcing employers to automatically set up and make contributions to a pension scheme for most employees at defined, minimum contribution levels. Auto Enrolment will be necessary for all employees aged between 22 and State Retirement Age, who have qualifying earnings currently over £7,475 per annum. (Other arrangements will need to be put in place for employees outside this range.)

Employees will have to make pension contributions too, again at defined, minimum contributions. Employees can opt out of the pension scheme if they wish, but not until after they have been automatically enrolled. If they do opt out, they will be automatically re-enrolled after three years.

When does Auto Enrolment kick in?

Every employer in the UK has been given a Staging Date, based on the number of employees on the payroll. This is the start date for Auto Enrolment.

Auto Enrolment becomes a reality for the very largest employers towards the end of next year, and by the end of 2013, every employer with over 500 employees will have reached their Staging Date. By the 1st July 2014, every employer with over 50 employees will be included.



In the case of ABC Marketing Co, with 100 employees, the Staging Date will be 1st June 2014.

If they wish, Employers will be able to commence Auto enrolment ahead of their Staging Date, subject to certain conditions and having given notice to the Pensions Regulator.

How much will we have to contribute as an employer?

As an employer, the minimum contributions are being phased in as follows:

From your Staging Date up until 30 th September 2016	1% of qualifying earnings
From 1 st October 2016 up until 30 th September 2017	2% of qualifying earnings
From 1 st October 2017	3% of qualifying earnings

How much will our employees have to contribute?

As an employee, minimum contributions are being phased in as follows:

From your Staging Date up until 30 th September 2016	1% of qualifying earnings
From 1 st October 2016 up until 30 th September 2017	3% of qualifying earnings
From 1 st October 2017	5% of qualifying earnings

What do we include in Qualifying Earnings?

You must include salary, wages, commissions, bonuses, overtime and statutory payments such as SMP and SSP. The contributions need to be calculated at the set percentage of qualifying earnings between £5,035 and £33,540 (the qualifying earnings band is subject to change following 2011 Pensions Bill receiving Royal Assent).

There is an alternative to using qualifying earnings as the basis for calculating contributions, known as Certification. This should make life much easier for the majority of employers.

Calculating contributions based on qualifying earnings will be time consuming and complicated. How do we use 'Certification' instead?

Employers are able to adopt 'Certification', if an existing or new pension scheme meets certain qualifying criteria and minimum contribution levels. This avoids the need to base contributions on variable, qualifying earnings and allows employers to use a simpler definition for pensionable pay.

The minimum contribution levels required, in order to use Certification are noted below:

Pensionable Pay definition:

Minimum Contributions (from 1st Oct 2017)

If pensionable pay is the same as total pay	Employer 3%	Employee 4%
If pensionable pay is at least 85% of total pay	Employer 3%	Employee 5%
If pensionable pay does not meet the above	Employer 4%	Employee 5%

(The contribution levels required for Certification prior to 1st October 2017 will be phased, in with further details being published following the 2011 Pensions Bill receiving Royal Assent)

Assuming we use Certification and pensionable pay exceeds 85% of total pay, what will be our approximate, annual employer pension contributions from 1st October 2017? Our average pensionable pay will be £30,000. We expect some staff to opt out.

	Employer Contributions:	
Current cost 4 out of 100 staff	£15,000	
Assuming additional 96 staff	£101,400	(Nil opt out)
Assuming additional 72 staff	£79,800	(25% opt out)
Assuming additional 48 staff	£58,200	(50% opt out)

What do we need to do ahead of our Staging Date?

You will need to assess your workforce ahead of your Staging Date to make sure you have the appropriate pension arrangements in place for each category of employee. Employees will be categorised as Eligible Jobholders, Non-Eligible Jobholders or Entitled Workers. This is determined by reference to age and earnings. There are different processes for each category of employee that will need to be followed. The initial assessment will need to be followed up by an accurate assessment on your Staging Date.



You will also need to make sure that the pension scheme that you put in place (or already have in place) is suitable for Auto Enrolment. Broadly speaking, there must be no barriers to automatically enrolling employees, no consents required from employees and no conditions can be attached.

All employers will have to register with the Pensions Regulator shortly after their Staging Date, giving details of their Auto Enrolment compliance.

What's involved in managing Auto Enrolment?

Once the assessment is complete and appropriate pension schemes are in place, you will need to plan for the Auto Enrolment date and the period shortly after.

Any Eligible Jobholder not already in a qualifying scheme will need to be enrolled in an appropriate scheme with membership being effective from the Auto Enrolment date. Payroll records will need to be updated with the appropriate pension contribution deductions scheduled. It is also necessary

to communicate with the employees within 1 month of the Auto Enrolment date, giving the employee information about the pension scheme, the fact that they have been automatically enrolled and also information regarding their right to opt out.

Employees have up to 1 month from the date the information is sent to them to opt out. If an opt out notice is received by the employer, the membership of the pension scheme must be cancelled and any contributions made by the employee refunded.

Non-Eligible Jobholders and Entitled Workers must be treated differently, with different communications being sent to them explaining their different pension options.

And on-going?

It will be necessary to assess each new employee as they join the organisation, to determine whether or not Auto Enrolment applies. The processes will need to be applied to new employees in the same way as they did on the Staging Date. It may be possible to use Postponement to defer the Auto Enrolment date for new employees for up to 3 months. This provision is intended to make life simpler with regard to the administration of pension schemes and contribution calculation and may also avoid processing pension enrolment in the very early days, when staff turnover can be at its highest. More information is due on Postponement following the Royal Assent of the 2011 Pensions Bill, due later this year.

Employees who were employed, but who did not meet the criteria for Automatic Enrolment on the Staging Date, need to be continually monitored, by reference to age and earnings, to see if they do subsequently meet the criteria for Auto Enrolment.

Compliance and Record Keeping

It will be necessary to be able to evidence that Auto Enrolment has been actioned at the right time and managed properly. This means keeping sufficient evidence that the delivery of the appropriate documentation took place at the right time, to the right employees, on the Staging date and on-going. The evidence must be kept for a period of 6 years and must be available to be produced to the Pensions Regulator if requested.

Should we be worried about complying with Auto Enrolment?

Yes. The government is very serious about Pensions Reform and has introduced a series of escalating, fixed fines for organisations that do not comply, ranging from £50 to £10,000 **per day**, depending on numbers of employees.

We don't need to worry until 2014 – let's park the problem for now.....

Bear in mind that Auto enrolment will affect every employer in the UK. This means that potentially, up to 1 million pension schemes will need to be created or restructured before the end of September 2016.

Whilst Staging Dates for many are a little way off, it is imperative to plan ahead so that there are no delays down the line. It is also important to budget for the increased costs of new pension contributions that Auto Enrolment will create.

It may also be necessary to consider competitive influences in your industry if you want to attract the best staff. As pension contributions become the norm across all sectors, you may well need to start contributing well ahead of your Staging Dates in order to remain an employer of choice.

This is daunting. We are going to need help setting this up and on-going . . .

The good news is that Fair Care will provide a solution that will enable you to outsource the whole of the Auto Enrolment process, both at the outset and on-going. The service will include:

- Planning and Assessment
- Employee enrolment and re-enrolment
- Document delivery
- Opt-out processing
- Payroll reporting
- Contribution Administration
- Record Keeping
- Audit tracking & Compliance

The solution is available through Benefit Select, Fair Care's highly regarded online benefits platform.

For more information, please contact Fair Care:

T 0800 652 4745

W www.faircare.co.uk



Benefit Select is a simple yet powerful on-line benefits portal, fast becoming the easiest and most cost-effective way to introduce voluntary and flexible benefits. [Click here for information](#)

Disclaimer - All figures, earnings bands and allowances quoted, and information given in this case study is based on our understanding of current guidance from the Pensions Regulator and other legislation, which is subject to change. Further advice should be sought before any decisions are made regarding pensions schemes and their administration. Fair Care Employee Benefits Limited will not be liable for the effectiveness of any arrangement entered into on the basis of information contained in this paper.