A guide to auto-enrolment for employers

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Important Note

We have produced this guide to help companies and businesses, their owners and directors, understand the various aspects of the new pension legislation which will introduce pensions into the workplace.

This legislation is relatively complex and the requirements it imposes on businesses that employ people will be considerable.

This is not a technical guide, it is written to provide a 'top-level' outline of all the key factors and to suggest how employers may best deal with the new legislative requirement.

The objective is to deliver a clear and concise explanation of the main parts of the legislation and what employers have to consider to achieve a workable way forward.

Employers should not rely on this guide in place of taking appropriate advice from a regulated advisory firm or individual.

It is important that any steps towards implementing a scheme are taken after seeking and receiving advice, and with full compliance being observed.

We can provide such advice as or when it is required.

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Introduction

Let us immediately cut through all the jargon and the detail: the new legislation relating to WORKPLACE PENSIONS is a big deal, both for employers and employees.

The change that this brings about is going to have **a major effect.**

Auto-enrolment is short for automatic enrolment. This describes the process whereby employers are going to have to put in place pension arrangements for their employees, make contributions, ensure compliance and then, in the future, manage the administration and records that go with this.

The legislation is now active, but the full impact is slowly being spread out over the next five years or so, with different employers being affected at different points (large employers have to comply now, smaller employers are brought in at different key dates coming up in the next few years).

Auto-enrolment means this:

- All employers* will have to activate a pension scheme for their employees
- They will have to make sure the scheme meets certain standards
- They will have to make a contribution to it
- They will have to run the pension scheme
- They will have to enrol employees** into the scheme
- It will be up to an employee to 'opt out'. The employer will place them in the scheme until such time as an employee opts out of it.

(*There are some exceptions to the word 'all' in respect of employers, however these exceptions are just that: exceptional, based on very narrow circumstances, in descriptive terms we are happy to use the word 'all' as it stresses the widespread net that is being cast over the market. **Employees who are affected will be ones who meet the following criteria - are not already in an existing qualifying scheme offered by the employer; are aged between 22 and State Pension age, earn more than £10,000 a year and work in the UK)

This is known as auto-enrolment because employees are put into the pension scheme automatically, it will be up to the employee to OPT OUT.

The wider term being used to describe this new arrangement is Workplace Pensions. We will use this term throughout this guide. The pensions that employers will use to meet the new requirements and rules will be called Workplace Pensions.

This new development has been brought in to reflect the growing concerns about how people are going to provide for retirement.

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The Generation Divide

The retirement picture for future generations is very different from that of past generations:

- People are living longer
- Generous Final Salary Schemes are no longer available
- The lifestyle of retirees is more elaborate
- Culture of borrowing and spending rather than saving
- Lower proportion of workforce to retirees

The State Pension (which is 'unfunded', relying on future government fulfilment from each year's budget) offers little more than a guarantee of an amount sufficient to cover basic living costs.

The outcome of all this is that there is a growing concern over how people will be able to afford their retirements moving forward.

This is why the introduction of this legislation is so important. It will engender a focus on pensions for millions of people in the workplace – setting in place a responsibility on employers.

The legislation describes when employers must comply, what they need to do to comply, and the terms of any pension scheme arrangement put in place.

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What Employers have to do and when they have to do it

One of the lesser known aspects of the new legislation is that employers are required by law to provide the right information *in writing*, to the right individual at the right time, so that their employees know how automatic enrolment will affect them.

The requirement is not solely about putting a suitable and compliant scheme in place. Employers will have to introduce the scheme to employees in the right way and then run the scheme appropriately thereafter. They will have to **keep records**, ensure **compliance** (both at outset and ongoing) and then provide **regular reports** to the Pensions Regulator. The Workplace Pension puts an onus on employers which is greater than is currently realised from a cost and an administrative point of view.

The dates relevant to employers are determined by the employee numbers ('the workers') of the Company, these dates are known as 'staging dates'.

The key staging dates for employers are:

- Large employers (with 250 or more workers), will have to start automatically enrolling their workers from October 2012 to February 2014 (some employers may choose to start earlier)
- Medium employers (50 – 249 workers) will have to start automatically enrolling their workers from April 2014 to April 2015
- Small employers (49 workers or less) will have to start automatically enrolling their workers from June 2015 to April 2017
- New employers (established after April 2012) will have to start automatically enrolling their workers from May 2017 to February 2018
- Employers who chose to use Defined Benefit or Hybrid Schemes can delay their staging date until 30 September 2017

It is estimated that by the time the staging process has completed – there will be **9 million** new pension savers.

It can be seen therefore that there is a rapid escalation in both the employee numbers and employers that will be caught by the new legislation.

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The contribution levels

The new rules impose some basic and minimum contribution levels that have to be made into the scheme:

- Minimum employer and employee contributions are based on 'qualifying earnings' between, in 2016/17 terms, £5,824 and £43,000 (inclusive of bonuses, commission, etc.). These figures will be increased each year in line with a statutory instrument made by the Secretary of State for Work and Pensions

- The minimum contribution rate is phased from 2012 to 2019. The table below shows the minimum employer and total contribution rates, together with the employee rate if the employer pays the minimum.

	October 2012 to 5th April 2018*	6th April 2018 to 5th April 2019*	6th April 2019 onwards
Total	2%	5%	8%
Employer	1%	2%	3%
Employee	0.8%	2.4%	4%
Tax relief	0.2%	0.6%	1%

* the proposed dates are subject to Parliament approval

One factor that smaller employers (those with less than 49 or fewer employees) will have to consider is this: the introduction of workplace pensions is going to accelerate, more companies are going to come under the legislation each year for the next few years, with this will be a rapidly increasing public awareness campaign and there will be growing coverage in Newspapers, across Social Media and it is likely that family and friends of employees will be affected.

As a consequence we believe that the issue of pensions in the workplace will become an important factor to employees when they consider their employment and **it will grow as a relevant factor.**

Although smaller employers may consider that the legislation allows them a couple more years before they are compelled to do something, there could be good commercial reasons for acting sooner. If a smaller employer wishes to bring their pension entitlement into line with larger employers then they may wish to voluntarily act to put something in place ahead of their staging date.

The type of Scheme that needs to be put in place

Employers will have to ensure that all 'eligible jobholders' are members of a **qualifying pension scheme** and, if not, arrange for them to enter into an **automatic enrolment scheme**.

Schemes have to meet certain criteria to qualify as a Workplace Pension – these vary a little depending on whether it is an automatic enrolment scheme or an alternative which meets the qualifying pension scheme definitions. However in general these terms will ensure the schemes are easy to enter (there can be no barriers to entry), have appropriate standards with respect to death benefits, retirement ages and charges on running the scheme.

A whole host of Providers will offer suitable qualifying scheme ensuring there is plenty of choice for Employers.

What is 'NEST' and how does this fit in?

NEST stands for National Employment Savings Trust and is the default arrangement set up by the government to act as the pension scheme of choice for many employers. However NEST is just one option, employers can pursue any option they choose provided the scheme they use meets all the qualifying criteria.

NEST is new and has been designed to be very low cost and efficient, operating online and with a large degree of member control.

However the investment choices may be quite limited in comparison to alternatives. Employers should be aware of all options before taking a final decision.

What about existing pension scheme arrangements provided by Employers?

Many existing pension schemes can be used as a qualifying pension scheme. Employers will need to check and ensure that these meet the minimum quality levels. Some employers are amending existing scheme rules so that they can be used as an automatic enrolment scheme. Others have decided to use one of the new options that have been created by third-party providers.

It is possible for employers to use more than one scheme and to use hybrid schemes, which have different terms applying for different workers. In all cases the schemes must meet the qualifying standards.

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The importance of advice and help

Our guide has deliberately been written to provide a basic understanding. There are numerous complications and a host of 'small print' for employers to deal with once the legislation starts to take full effect.

For example: there are issues around overseas workers and workers on secondment; there will need to be computations around what constitutes 'qualifying earnings'; there are very serious potential 'traps' for employees with **large** pension entitlements who have enhanced or fixed protection, which could include severe tax implications if the scheme is handled incorrectly; there are possible ways some employers can 'self-certify' that their current arrangements meet qualifying standards and then there are considerations to be made where other benefits are or may be provided alongside the pension.

We have aimed to emphasise that workplace pensions will impose strict criteria on employers. Over and above this, employers have to give information in writing, provide explanations to employees and manage this as a serious matter, imposing a time heavy commitment to some of the employer's staff.

Getting help from an appropriate adviser can alleviate this workload and produces a series of overlapping benefits, namely;

1. The adviser can help ensure that the right information is provided at the right time.
2. The adviser can take the workload away from the employer's staff and provide the service required to the employer and to their employees both at the time of the introduction of the workplace pension and then into the future, year after year.
3. The adviser can make sure the best possible scheme is put in place.
4. They can ensure compliance with all ongoing legislative matters.
5. The adviser can extend personal help to individual employees, including high earners who may require individual tax advice

What do we mean by an appropriate adviser?

Clearly there are two main elements which will help employers who use an adviser:

- Getting advice
- Receiving day to day support and help

In order to properly advise on Workplace Pensions and to provide an ongoing service an adviser should be regulated by the FCA and have the requisite pension qualifications. We suggest that employers will always benefit from getting such advice and help from a qualified source.

It is possible for Employers to contemplate doing some or all of this work without external advice or help. However to ensure that all requirements are met and that the best pension terms are put in place an expert will be invaluable.

There is one further area of consideration that we need to draw your attention to:

This new legislation could easily be seen as yet another bureaucratic imposition on employers; a frustrating and irritating additional burden. We believe that we can help to alleviate this - by taking away all the stress and strain. However over and above this, we believe that we can demonstrate to employers that this is **an opportunity** to introduce not only a Workplace Pension benefit to employees but a whole new range of benefits, all initiated by their employer.

In other words we believe we can assist to make this *a strong and positive* experience for employees which will reflect very positively back on their employer.

We can do this in a number of ways: by ensuring that information is well prepared and well presented; that employees are given proper explanations, have access to people (i.e. us – as professional advisers) who can answer all their questions; help with general questions (and concerns?) in relation to their retirement options, and possibly help with wider issues they have about their finances. We can look at how ongoing communications are provided in a way that produces a positive experience for the employee.

Dealt with in the right way the new legislation can be used as a springboard by employers to put into effect a series of highly positive employer-initiated communications and turn this into a great employer/employee experience, with credit reflecting back on the employer for doing so.

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About Us

Our specialist teams provide financial advice on investments, pensions, employee benefits and other key financial areas. Our trusted planners work with a range of clients including individuals, companies and trusts. In addition we work closely with other professional organisations, such as solicitors and accountants across the UK, to provide financial advice to their staff and clients.

We are part of Alan Boswell Group, which includes a Top 25 independent insurance broker*, and has over 220 staff, based over eight locations, including our head office in Norwich. All of our general insurance operations have achieved Chartered Insurance Broker status, a title held by less than 200 broking firms across the UK.

*According to Insurance Age 2015.

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