Auto-enrolment – a guide for employers

one pension consultancy

A guide to auto-enrolment and your duties as an employer

What is auto-enrolment?

Auto-enrolment is legislation designed to help encourage employees to save towards their retirement. It means that all employers will need to establish a pension arrangement that meets certain standards. All employees who meet certain criteria will need to be automatically enrolled into this pension arrangement. Both the employer and the employee will need to pay into the pension arrangement.

When will it apply to my business?

From 1 October 2017, new employers will need to comply with the regulations with immediate effect. In other words, as soon as your business starts employing someone, you will need to comply with the regulations. New businesses coming into effect will therefore need to factor this into their set up plans.

This date will be known as your duties start date. You cannot alter this date but you can apply postponement. This means that you can postpone assessing (and therefore automatically enrolling) employees for a period of up to three months.

Who do I need to enrol?

You only need to automatically enrol employees who meet certain criteria. At present, this applies to anyone who meets all of the following:

- Are aged between 22 and the State Pension Age.
- Earn more than £10,000 a year (2018/19 tax year). This is tested each time someone is paid so if someone is paid monthly, and they earn more than £833 a month, they may need to be automatically enrolled.
- Work, or ordinarily works, in the UK.

Note that although you only need to automatically enrol employees who meet the above criteria, other employees may choose to opt into the pension. If they opt in, in most cases you will also need to make a payment on their behalf.

Once employees have been automatically enrolled, they will have a one month period in which they can opt out of the pension. If they choose to opt out during this period it will be as if they were never a member of the pension and any contributions they have paid must be refunded to them. Anything paid by you on behalf of an employee who opts out will be refunded to the business. Note that there are strict laws in place to safeguard employees and it is important that employees are not encouraged or forced to opt out of the pension.

How much will I need to pay in?

With effect from April 2018, employers must pay at least 2% of Qualifying Earnings into a pension on behalf of employees. Qualifying Earnings are total earnings between £6,032 and £46,350 per annum (2018/19 tax year). Total earnings will include basic pay, commission, bonuses, overtime, Statutory Sick Pay and Statutory Maternity Pay. It may also include other elements of pay and you are advised to take advice in this respect to ensure you are meeting your duties. The total amount paid into the pension must be at least 5% of Qualifying Earnings. This means that the employee will need to pay the difference between the employer contribution and 5%. If the employer pays the minimum 2% contribution, this means that the employee will need to pay 3% of Qualifying Earnings into the pension.

The minimum amounts are due to increase with effect from April 2019. From this date, the employer must pay at least 3% of Qualifying Earnings into the pension. The total contribution must be at least 8% of Qualifying Earnings and so the employee will need to pay the difference between the employer contribution and 8%. If the employer pays the minimum 3%, the employee will need to pay at least 5%.

Do I have to pay contributions on Qualifying Earnings?

No you can use an alternative earnings definition (for example, basic salary). However if you do this you will need to ensure that the contributions meet one of the alternative certification bases set down in the legislation. You should take advice to ensure you are meeting these requirements. You will need to complete a certificate to say that you meet the requirements at least every 18 months.

Can I pay more than the minimum into a pension for my employees?

Yes, you can choose to pay over and above the minimum requirements if you wish. This may help to put you in a more competitive position as an employer which may aide with the recruitment and retention of employees.

If you opt to pay a higher contribution on behalf of your employees, you could allow the employee to pay a lower contribution in order to meet the minimum contribution requirements. For example, in 2019 when the minimum total contribution must be at least 8% of Qualifying Earnings, you could chose to pay 4% as an employer contribution meaning that the employee must also pay 4% in order to meet the minimum 8% total contribution.

What pension arrangement should I use?

There are a number of different pension arrangements that you could use to meet your duties under automatic enrolment legislation. The one you select will depend upon what contributions you decide to pay and what is right for you and your employees. For example, if you are willing to pay higher contributions into the pension, you may have more choice on provider than if you choose only to pay the statutory minimum.

Any pension you select must meet certain minimum standards so that it is what is known as a Qualifying Workplace Pension Scheme. These standards cover not only the contributions paid in but also the way these are paid across, the charges applicable to members, whether or not the pension allows employees to be automatically enrolled and whether there is sufficient legal wording in place to bind both the employee and the employer.

My employees already have individual pensions in place. Can I pay into these instead?

Individual pensions can, in some circumstances, be used to meet your requirements for some employees under automatic enrolment. However any arrangement you use must still meet the requirements to be a Qualifying Workplace Pension Scheme. Many individual arrangements will not be able to meet this requirement even if the correct level of contributions are being paid in. You should seek explicit confirmation from the provider if you are considering using an existing individual pension to ensure it meets the requirements.

If you do use individual pension for some employees, you will also need to consider what arrangements you will use for any new starters and bear in mind the timescales you will have to affect their membership.

So is it just about paying contributions into a pension arrangement?

No, paying pension contributions is just one element you will need to comply with. You will also need to:

- Assess your employees to see who meets the requirements to be automatically enrolled. Issue statutory communications to employees advising them of what action will be taken and their options.
- Process any opt outs and refund money to anyone who has opted out during the opt out period.
- Enrol members into the pension. This includes those who are not eligible to be automatically enrolled but who choose to join the pension.
- Make sure the pension you have continues to meet the standards to be a Qualifying Workplace Pension Scheme.
- Select a default fund. This is the fund employees will automatically be invested in unless they select an alternative. The fund used must meet certain criteria.
- Keep records on the pension and your employees. In some cases these must be kept for as long as six years.
- Complete a Declaration of Compliance with The Pensions Regulator.
- You may also need to complete a certificate. This will be required if you choose a salary definition other than Qualifying Earnings.

What are the ongoing requirements?

As an employer your automatic enrolment duties are ongoing. This means you will need to assess employees who are not already in the pension each time they get paid and if they meet the eligibility criteria, enrol them into the pension. You will also need to issue statutory communications to any new employees, anyone who meets the criteria for the first time and anyone who is automatically enrolled into the pension or anyone who opts to join the pension.

Every three years you will also need to carry out a re-enrolment exercise. This means that anyone who has opted out of or who has stopped paying into the pension will need to be re-assessed and if applicable re-enrolled into the pension.

What happens if I don't comply?

The Pensions Regulator are responsible for policing automatic enrolment. Employers who do not comply could be faced with enforcement action or even a penalty notice. There are a number of penalties that can apply and these can be as much as £5,000 for individuals or £50,000 for organisations.

How can One Pension Consultancy help?

We have successfully helped a large number of employers prepare for and meet their duties; ranging from large employers with several thousand employees to much smaller ones. We take into consideration the needs of both the business and the employees and are able to help you get through the legislation at a competitive cost. Some of the ways we can help are as follows:

- Help you to understand your duties and how this will impact on your business plans.
- Consider and establish a pension arrangement suitable for both your business needs and for your employees.
- Help communicate the pension to your employees. This covers not only the statutory communication requirements but also to promote awareness of the pension and its value. This helps to ensure that you get the most for your spend.
- Help you prepare for the processes required with automatic enrolment and how you can implement this into your business processes.
- Help ensure you meet the numerous compliance aspects of automatic enrolment so you don't accidentally fall foul of the legislation.

Important Notes

The information contained in this document is based on One Pension Consultancy's understanding of the legislation as at June 2018. This document is for information purposes only and does not constitute advice.

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