rosan helmsley
WEALTH MANAGEMENT

Workplace pensions and auto-enrolment

Nudge, nudge…

Automatic enrolment has 'changed the UK workplace forever,' according to the Pensions and Lifetime Savings Association. Over seven million people working for over 340,000 employers have started to save via a workplace pension as a result of automatic enrolment, with more to come between now and February 2018. No employer – however small – can afford to ignore these changes.

This radical pension reform got underway in October 2012 and has already worked its way through all employers which had PAYE schemes at 1 April 2012. It is now focused on those which were established after that.

The automatic enrolment of employees and certain other workers into workplace pension schemes draws on 'nudge theory' – the notion that individuals can be nudged into taking beneficial actions that they might otherwise avoid, such as joining and contributing to a pension plan. Millions who might never have got round to applying for a pension are now saving in schemes organised by their employer.

Alongside automatic enrolment, from 6 April 2016 the single-tier state pension of £159.55 a week (in tax year 2017/18) was introduced, applying to those now reaching state pension age (SPA). This has replaced both the basic state pension and the state second pension (S2P), but not for those who reached their SPA before 6 April 2016. The structure of the new state pension makes it unlikely that individuals with a full national insurance history could be better off opting out of auto-enrolment and relying on means-tested benefits. The pensions industry currently developing a 'pensions dashboard', which will allow individuals to view a single summary of all their pension arrangements. This is due to be launched in 2019.

Action point

The process of introducing automatic enrolment into an organisation is not something that can be left to the last minute so make sure you have the necessary procedures in place.

For employers, automatic enrolment brings extra cost and administration because they are obliged to pay into pensions unless employees opt out after being automatically enrolled. If you already provide a pension and have not yet reached your automatic enrolment start date, the number of scheme members is likely to increase. There will be extra administration, involving communicating with staff, dealing with pension providers and satisfying the Pensions Regulator that you are meeting the requirements.

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Automatic enrolment – the basics

The easiest way to understand automatic enrolment is to work through a few simple questions.

Who is affected?

Almost all employers are affected. An important exception is a company with only a single employee who is also a director. The range of employers affected therefore runs from multi-national companies to a family which employs a nanny.

The change also affects all 'workers' over age 16 and under age 75 who work, or usually work, in the UK. 'Workers' includes employees and others who are contracted to work for you, except as part of their own business. Agency workers are included, and you are likely to be responsible if you pay them directly.

Workers will be 'eligible jobholders' if they:

- Are aged 22 or over.
- Are under SPA (a moving target these days).
- Earn more than a minimum income, which is £10,000 a year (£833 a month, £192 a week) in tax year 2017/18.

Eligible jobholders must be automatically enrolled into a suitable pension scheme unless they are members of an existing 'qualifying scheme'. You cannot assume that a current scheme will necessarily be suitable for automatic enrolment, because it may not meet the requirements for payment levels and charges or include an appropriate agreement with the pension provider.

Action point

Don't assume that an existing 'qualifying scheme' is suitable for automatic enrolment.

There is a second group of workers known as 'non-eligible jobholders.' They are workers who:

- Earn more than £5,876 a year in 2017/18.
- Are not eligible jobholders.

Non-eligible jobholders must be offered a pension on the same basis as eligible jobholders, but they must apply to join rather than being automatically enrolled.

The final group is of those over age 16 who earn less than the minimum for non-eligible jobholders, and who are known as 'entitled workers.' You have to offer them access to a pension scheme, but you do not have to pay into it.

When must you act?

Only new companies have not yet been required to implement auto-enrolment. If your business started after 1 April 2012, your 'staging date' is determined by when you first paid PAYE income. The Pensions Regulator will write to you before your staging date to remind you of your duties, or you can check the date at www.thepensionsregulator.gov.uk/employers/staging-date.aspx.

In theory there is nothing to prevent an employer bringing forward its automatic enrolment staging date, although in practice it is hard to see why it would, given that it would bring forward the need to make contributions. There is also an option to defer automatic enrolment for up to three months after the staging date, but employees can opt in during that period.

After the staging date, employees who become eligible jobholders must be automatically enrolled, although the employer can defer enrolment for up to three months. And every three years an employer must automatically re-enrol those who have chosen to opt out.

Because there is a significant amount of effort involved in assessing the workforce and ensuring that appropriate pension arrangements are in place, the Pensions

Regulator recommends that you decide on your contact person for the regulator now and make your choice of pension provider six months before your staging date.

How much must you pay?

Auto-enrolment requires a minimum overall level of pension contribution to be made for eligible jobholders as a percentage of their 'qualifying earnings.' These include overtime, commission and bonuses and several statutory payments. In 2017/18 this covers a band between £5,876 (the national insurance contributions (NICs) lower earnings limit) and £45,000 (the NICs upper earnings limit).

There is a minimum employer contribution and a minimum overall contribution, both of which are being phased in as below:

Period	Minimum employer contribution % of qualifying earnings	Minimum total contribution % of qualifying earnings
Before 05/04/2018	1	2
06/04/2018 – 05/04/2019	2	5
06/04/2019 onwards	3	8

The minimum total contribution includes basic rate tax relief (currently at 20%) on any employee contribution.

Action point

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Example – Auto enrolment contributions

Arctic Haulage Ltd has passed its staging date and has established a pension scheme based on qualifying earnings, with the employer contributing 3% and employees 5% including tax relief. For someone earning £25,000 in tax year 2017/18 (so with qualifying earnings of £19,124) the total yearly contributions will be:

Employer contribution	3%	£573.72
Employee net contribution	4%	£764.96
Tax relief on employee contribution	1%	£191.24
Total	8%	£1,529.92

Contributions can be made on alternative bases, so to allow this flexibility can certify that contributions meet one of them. For example, contributions from April 2019 can be at least 9% of basic pay, with at least 4% paid by the employer. This is more likely to allow existing schemes to continue unchanged. Under the alternative bases, almost all staff will receive contributions at least as high as under the standard basis.

Contribution rates

The setting of contribution rates is one of the most important decisions you have to make as an employer. Paying more than you have to obviously comes at a cost to both employer and employees. However, experts agree that the minimum contribution level is not nearly enough to provide a satisfactory retirement income, even after adding in the value of the single-tier state pensions. One option to incentivise staff might be to set a minimum contribution level, but offer to pay in, say, an extra 0.5% of salary for every 1% individuals choose to pay on top of this, up to an overall maximum amount. Or you could consider a contribution level that increases gradually over time.

There are potential financial penalties of up to £10,000 a day for employers who fail to implement auto enrolment. There are also other penalties for those who encourage employees to opt out, for example by recruiting only those who agree to opt out immediately once their employment begins. The Pensions Regulator has already issued over 7,000 Penalty Notices.

Example – Contribution rates

ABC Plumbers Ltd employs 28 staff and has an automatic enrolment staging date of 1 June 2017. Employees tend to work significant hours of overtime at various points in the year, and the company is keen to have some stability in its pension bill. After consulting a financial adviser, the company decides to establish a pension scheme with an employer contribution of 4% of basic salary and a 5% employee contributions, including tax relief. Although this is likely to cost more overall than if the employer (ultimately) paid 3% of qualifying earnings, it provides more consistency in contribution levels.

Which pension scheme?

Each employer must have one or more 'qualifying' pension schemes. A qualifying scheme must include a formal agreement that the employer will pay at least the minimum contributions, including passing on any from the employees. In addition, employees who are automatically enrolled must not be required to make any decisions, which means there must be a suitable default investment option, and there is a maximum charge for members equivalent to 0.75% of the value each year.

Action point

The setting of contribution rates is one of the most important decisions you need to make as an employer and most experts agree that the minimum contribution level is not nearly enough for a satisfactory retirement income so consider offering to pay more than you officially have to.

There are many ways to meet the requirements, including:

- A new in-house scheme, designed to meet the new rules.
- An existing in-house scheme, although this may need changes to satisfy the regulations.
- A group personal pension (GPP) under a contractual arrangement with an insurance company or other product provider.
- A master trust scheme, covering the employees of a number of employers.

In-house schemes can be tailored to the requirements of the company and its staff, but they require considerable administration, such as appointing trustees and maintaining records. They are now mainly set up by large companies or they are used in order to provide highly flexible pensions for high-earning directors and employees of smaller companies. Most companies choose a scheme run by a pension provider, which deals with the bulk of the administration.

GPPs are generally run by large insurance companies and offer a wide range of investment options as well as support in setting up and communicating your pension

Action point

A combination of different schemes may be appropriate for some employers: it might be appropriate to enrol junior staff into NEST or a similar master trust scheme, while more senior employees could be enrolled in a GPP.

arrangements, generally with the help of a financial adviser. Although you make the arrangements, each employee has their own contract with the provider and can continue paying in if they leave your company.

Master trusts are similar to in-house schemes, but cover many companies and are administered centrally. Some master trusts have been set up specially to provide a simple, low-cost option for automatic enrolment. These include the National Employment Savings Trust (NEST), which was established by the government to ensure that every employer has access to at least one pension scheme. Key features of NEST are:

- NEST is run by a **non-departmental public body**, the NEST Corporation, and the scheme's set-up costs were funded by a loan from the Department for Work and Pensions that is to be repaid from future NEST charges. NEST is not a government pension scheme, although the government does appoint the chairman and other trustee members of NEST Corporation.
- NEST is a **master trust occupational pension scheme** that is obliged to accept any employer wishing to use it to meet their auto-enrolment requirements. The scheme has the same low charges for all members – 1.8% of each contribution and an annual management charge of 0.3% of each member's fund. By default, contributions are allocated to a 'target date fund' based on the year when the member is due to reach state pension age. This is designed to manage investment risk and to reduce the likelihood of losses when members are starting out or are nearing retirement. However, there is the option to invest in any of five other funds or select a different target date.
- NEST offers **a simple, low-cost option for employers,** but it is not a default for automatic enrolment. GPP charges are often based on an employer's particular characteristics, such as number of employees, average earnings and staff turnover. This means that charges can be comparable to, or even lower than, NEST and can also provide added value features. Some of the other master trust schemes offer different investment options, while individual company schemes give an employer and staff more control over their scheme and its features.

A combination of different schemes may be appropriate for some employers. For example, it might be appropriate to enrol junior staff into NEST or a similar master trust scheme, while more senior employees could be enrolled into a GPP. Another possible approach would be to use a master trust for the majority of staff and a small self-administered scheme (SSAS) for shareholder directors. The Pensions Regulator's view is that "well-run multi-employer master trusts and GPPs are the best choice for small and micro employers preparing to meet their workplace pension duties."

What do you need to do?

Complying with your auto enrolment obligations is a complex process, and it is important that you develop an action plan. Things you must do include:

- Find out your organisation's staging date.
- Confirm to the Pensions Regulator whom you have nominated as your point of contact.

- Assess your workforce, so that you know how many fall into each category and can estimate the cost of auto enrolment.
- Review any pension arrangements you have and consider how you can best meet the automatic enrolment requirement.
- Consider any changes you need to make to your payroll processes.
- Communicate with your staff and arrange auto enrolment. This will include processes for managing opt-outs and refunding any contributions these employees have made. If you take advantage of the ability to defer for three months you will save money, but there will be extra administration.
- Declare your compliance to the Pensions Regulator and ensure that you keep the necessary records.

There is then the ongoing process of ensuring that you automatically-enrol all employees as they become eligible and repeating the process every three years for any who have opted out.

How we can help

Auto enrolment imposes new duties and, probably, additional costs on your business. There are many decisions to be made and potential pitfalls at every stage. Businesses that fail to comply can suffer substantial financial penalties. The Pensions Regulator has produced detailed guidance and pension providers can help to some extent, but many companies value the expertise of an adviser who can look at their particular circumstances and recommend solutions.

We make it our business to stay up-to-date with the latest developments in auto enrolment so that we can offer you the very best expert advice tailored to your firm's particular circumstances.

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