

A-Z of Auto Enrolment

A – Auto-enrolment

A new law was enacted so that all employers in the UK must automatically enrol their eligible staff into a workplace pension. Auto enrolment is the first significant change to the pension laws in over a hundred years.

All employees who are eligible will be automatically enrolled in the scheme. Auto enrolment began in October 2012 and will be introduced in stages depending on the size of an organisation.

B – Benefit of Auto-enrolment

It is believed that there will be approximately 2 workers for every pensioner by the year 2050. In comparison, in 1901, there were 10 people working. Auto enrolment is a way for employees to start planning and thinking about their own pension requirements.

It has the added benefit of turning employees into savers. Previously, employees had to actively sign up to a pension plan, but they must now actively opt-out of the scheme.

C – Costs involved in Auto-enrolment

There are a number of costs involved in setting up a workplace pension. Employers will have to contribute to the employees' pension. This is 1% of qualifying earnings (from 1st Oct 2012 – 30 September 2017) and will rise to at least 3% by 2018.

There will also be the costs of setting up the scheme and running the scheme. You might have to think about getting new software to help you manage it correctly on a daily basis. Alternatively, you might engage external help from experts with knowledge of Auto-enrolment, like Paycheck Plus who can help you process your payroll.

D – Deferring Auto-enrolment

You can choose to defer auto enrolment for up to three months for some or all of your staff. This might be necessary for a number of reasons but you must comply with the legislation. One compliance feature is to write and tell your staff that you're delaying enrolling them in the scheme. The postponement period need not be the same length for all staff.

E – Exceptions

Enrolment into a pension scheme may vary depending on employment circumstances. Clause 34 of The Pensions Bill 2013 contains a regulation-making power to exempt particular categories of employee from automatic enrolment requirements. The Department of Work and Pensions is still considering how this power will be exercised.

F – Fines

Compliance with the law is compulsory. All UK employers, no matter their size, must automatically enrol their employees into their workplace pension scheme. There are a range of fines and penalties for those employers that fail to comply. A fixed penalty notice of £400 if an employer doesn't comply with statutory notices. After that, employers who fail to comply will receive escalating penalty notices. For example, £50 a day for employers with 5 or less staff, £500 a day for employers with 5-49 staff and £10,000 a day for employers with 500 or more employees. The Pensions Regulator will begin court proceedings for companies who 'wilfully and deliberately' fail to comply with their duties.

G – Government Gateway

The Government Gateway is the term given to the secure, online service which allows you to register your compliance for automatic enrolment. All employers must register with the Pensions Regulator; it is a legal requirement to submit information about how you've complied with all your duties as an employer. The registration deadline is four calendar months from your Staging Date.

H – Hiring New Employees

Employers cannot offer incentives or higher salaries to future employees to avoid enrolling them in the scheme. This is strictly not allowed nor is offering incentives to existing staff on the condition that they opt-out of the scheme.

I – Included Employees

Employees are automatically included in your workplace pension if they are:

- aged between 22 and retirement age
- earn over £9,440 (figure to be reviewed each year)
- not already in a work-based pension scheme.

J – Joining the Scheme

When an employee exercises their right to opt-in, s/he gives his employer, a 'joining notice'. This is a written notice which requires the employer to add them to the workplace pension. Upon receipt, the employer must make the appropriate arrangements to enrol the employee into the scheme.

K – Keeping Records

As part of your compliance duties, you must keep records about your staff, their opt-in details and the pension scheme. They should be in legible format for the Pensions Regulator to be able to read them.

L – Letters to your Staff

As part of the 'keeping records', all communication with your staff must be through letter. It doesn't have to be formal, but it should be written down. So, when you are advising your staff on the date of the auto-enrolment, how automatic enrolment affects employees' rights or postponement of auto-enrolment, then it must be in writing. The Pensions Regulator has a number of letter templates on their website which will help you write to staff as required by law. You can tailor the letter templates to your needs.

M – Minimum Contributions

Each employee and employer will have to make a minimum contribution. The minimum contribution made between 1 Oct 2012 and 30 September 2017 is 2% of gross earnings. This is broken down to minimum 1% from employer and 1% from employee. Between 1 October 2017 and 30 September 2018, this minimum contribution rises to 5%. From 1 Oct 2018, it's at 8%, broken into minimum 3% from employer, 4% from employee with 1% in tax relief.

N – Nominate a Contact

The Pensions Regulator would like a person to be nominated as the contact person to communicate with. All employers must comply with the new legislation and the most senior person in the organisation is responsible for ensuring compliance with auto enrolment duties are carried out. Nominated contacts with organisations will receive regular letters and emails at various key stages to help prepare for fully automatic enrolment.

O – Opt out

Employees are automatically enrolled in a workplace pension scheme. However, employees for whatever reason can opt out of the pension scheme within a month of being signed up. Employers are not allowed to encourage workers to leave the scheme. Employees who opt out must be re-enrolled by their employer every three years, although they can still say no.

P – Pensions Provider

You can pick your own pensions provider or use the government backed NEST Pensions. One option is NEST – National Employment Savings Trust - which is a pensions scheme set up by the Government, intended mainly for lower-wage earners.

Q – Qualifying Pension Schemes

Some employers may already have workplace pension schemes in place. If you do, you will need to check that it meets the automatic enrolment criteria. If it does, you can continue to use it for existing staff members but it will need to meet some additional criteria to automatically enrol new members. If it doesn't, then you will need to choose a scheme that does meet auto-enrolment criteria. If you're unsure in any way, you should ask the trustees or scheme provider.

R – Regular Assessment

Even when you auto-enrol all your staff at your staging date, you can't just leave it there. You must continue to continually assess your workforce to ensure that eligible employees are added as and when they qualify. Similarly, income rates might change so it's a good idea to regularly assess things. A payroll provider like Paycheck Plus can help with the payroll requirements on a regular basis and keep you updated.

S – Staging Dates

Not all companies have to automatically enrol their staff into a workplace pension at the same time. The staging date depends on the size of your workforce or employees paying PAYE on 1 April 2012. Staging will be phased over a 5-year period with the largest employers having started in 1 October 2012 with medium and small sized employers following thereafter. All employers will receive notification from the Pensions Regulator to advise of exact staging date. But you can use this grouping for information:

- Large companies – 250+ employees
 - 1 October 2012 – 28 February 2014
- Medium companies – 50-249 employees
 - 1 April 2014 – 30 April 2015
- Small companies – 49 or less employees
 - 1 June 2015 – 30 April 2017
- New companies (set up after 1 April 2012)
 - 1 May 2017-28 Feb 2018

T – Timing of Minimum Increments

Increments into the pension will increase over the years. These are the minimum contributions made up of employee contributions, employer contributions and tax relief.

- 1 Oct 2012 – 30 Sept 2017
 - 2%
- 1 October 2017 – 30 September 2018
 - 5%
- 1 October 2018 – onwards
 - 8%

U – Undoing your Opt-out

Any eligible employee who has been automatically enrolled but chooses to opt out has the option of opting back in to an automatic enrolment pension scheme. They give their employer an 'opt-in' notice in writing. The employer makes arrangements to bring the employee back into the scheme from the enrolment date.

V – Value of the Pension

Values of Pensions are not an issue with automatic enrolment. That is a consideration for every employer when setting up the scheme with their pension provider or the government backed NEST Scheme.

W – Workers not Included

There are workers who do not fit the criteria for automatic enrolment but they can opt in to join a workplace pension. Workers who are between 16 and 74 and earn more than £5,564 a year can ask to be enrolled and their company will have to let them and pay a contribution too. Workers in that age group (16-74) who earn less than £5,564 can also ask to join but their employer won't have to pay anything towards their pension.

X – eXtra Contributions

The minimum contributions are just that – the minimum contributions. Employers are free to increase their minimum amount, which starts at 1%. Likewise, employees can increase their amount. As the years progress, the minimum contribution does go to 8% from 2018 but employees are able to pay in up to 100% of salary.

Y – Yearly Reviews

The Pensions Regulator will review the criteria for an employee's eligibility to the scheme. Currently the salary amount is £9,440 but this will be reviewed each year. Previous documentation relating to automatic enrolment contained information relating to the salary as £8,105. It will be important to make regular assessment part of your business or engage a company who will advise you on correct processes and procedures.

Z – zzz

Get some ZZZs knowing your auto-enrolment duties in terms of payroll are looking after by Paycheck Plus