

Mattinson Ginty & Partners (Employee Benefits) Limited

A Guide to...

Auto-Enrolment

Special points of interest:

- Auto-Enrolment Starts October 2012
- Eligible employees are those over 22 earning £7,475 per annum
- Minimum employer contribution of 3%
- Minimum employee contribution of 4%

The Coalition Government has now announced its review of the National Employment Savings Trust (NEST) and auto enrolment. The outcome is that, from October 2012, it will be **COMPULSORY** for all employers to contribute to a pension scheme for eligible employees.

NEST will be the compulsory workplace pension scheme for any employer who does not operate a Qualifying Workplace Pension Scheme (QWPS) or better.

How will it work?

Starting from October 2012 all employers, regardless of size, will be required to auto-enrol all eligible employees

into a QWPS or NEST.

To ease the administration burden the Government is phasing in membership from 2012 through to 2016. A full list of the staging dates is available on our website.

Eligibility

Eligible employees are those aged 22 or over and earning more than £7,475 per annum. Temporary and contract workers must be included (but not agency staff).

Younger employees can join on request and receive an employer contribution, as can employees earning between £5,715 and £7,475.

Employers have up to 3 months before automatically enrolling a new employee into a pension scheme; however, employees who wish to opt in during this period may do so and receive an employer contribution.

Contributions

The contribution rates required are 3% from the employer, 4% from the employee and 1% tax relief making a total contribution rate of 8%.

Contributions are to be



National Employment Savings Trust 'NEST'

based on 'band earnings' (those between £5,715 and £38,185) and are to include any bonus, commission or overtime payments.

Salary exchange will be permitted.

Both the employer and employee can elect to pay higher contributions than the minimum. It is possible for the employer to pay the whole 8% and for the scheme to be a QWPS.

Contributions into a QWPS and NEST will be phased in as follows:

Phase 1 will run from October 2012 to September 2016.

The employer contribution rate will be 1% of banded earnings with the employee contributing 0.8% and

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receiving tax relief of 0.2% of band earnings. This will give a total contribution of 2%

Phase 2 will run from October 2016 to September 2017. Employers will be required to contribute 2% of band earnings, employees 2.4% and tax relief will be 0.6%. This will give an overall total of 5%

Phase 3 will run from October 2017 and employers will be required to make a contribution of 3% with employees contributing 4% and tax relief being 1% of band earnings. This will give a total contribution of 8%.

Employee Opt Out

Whilst employers are required to auto-enroll employees into a scheme, employees have the right to opt out once auto-enrolled.

Any employee who elects to opt out must however, be re-enrolled every 3 years.

Employer Duties

The obligations and responsibilities laid on employers are referred to as 'duties' by the legislation and failure to comply may result in a penalty notice.

The main duties are:

- Employers must register with the Pensions Regulator
- Employers must auto-enroll employees on time
- Employers may not use prohibitive recruitment conduct (ie not employ people who intend to join the pension scheme)
- Employers must give all pre-determined material to employees at the appropriate times required by the legislation
- Employers must re-enroll employees (after a certain period) who opt out following auto enrolment
- Employers must keep records for a prescribed period of time
- Employers must not induce employees to opt out of a Qualifying Scheme
- Employers must give information on pensions to their employees at the point of auto-enrolment, but not give advice
- Employers must contribute to their employees' pensions

Qualifying Workplace Pension Scheme Certification

Employers who wish to operate a QWPS rather than use NEST will need to be able to certify that their pension scheme meets the required contribution level.

If a scheme meets one of the following tests it can be certified as meeting the auto-enrolment requirements.

1. A minimum 9% contribution of basic earnings, including a 4% employer contribution.
2. A minimum 8% contribution of basic earnings, including a 3% employer contribution, provided that basic earnings constitute at least 85% of the total pay bill
3. A minimum 7% contribution of the total pay bill, including a 3% employer contribution, provided the total pay bill is pensionable.

NEST

NEST will be an Occupational trust based pension scheme administered by Tata Consultancy Services with State Street Corporation acting as fund administrator.

The target market for NEST is low to medium earners and generally those employers with less than 20 employees.

The maximum contribution that can be paid into NEST for a member is £4,300 per annum.

NEST charges have now been confirmed as a 1.8% contribution charge (applied for an unspecified period) plus a 0.3% annual management charge.

MGP

MGP are able to offer employers who wish to go down the QWPS route a first class administration service. We aim to take on board the majority of the burden the legislation will impose by acting as the employer's Pensions Department. This will allow employers to continue doing what they do best — running their business.

We are able to carry out a comparison exercise to check that existing pension schemes meet the auto-enrolment requirements. This work will be done automatically for our existing clients.

Summary

Action is required now—employers need to know the cost of both the contribution element and the administrative element of the options available before deciding on the way forward. Depending on their 'staging date' employers will only have between 2 and 6 years to comply—for further information and support call MGP now.

MGP's pension advisers can be contacted on
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