April 2014

Mattinson Ginty & Partners (Employee Benefits) Limited

A Guide to...

Auto Enrolment during the 2014-15 Tax Year

Special points of interest:

- Auto-Enrolment commenced October 2012
- Eligible employees are those over 22 earning £10,000 per annum
- Minimum employer contribution of 3%
- Minimum employee contribution of 4%

Royal Assent was given to the Auto Enrolment regulations on 3rd November 2011 so Auto Enrolment started in October 2012.

Auto Enrolment is designed to get more people saving for their retirement as it is estimated that around seven million people in the UK are currently not saving enough for their retirement.

All employers have been allocated a staging date which was based on the number of employees in their largest Pay As You Earn (PAYE) scheme at 1st April 2012. Any changes to the size of workforce after 1st April 2012 will not affect the staging date.

The Pensions Regulator (TPR) writes to employers 12 months before their staging date and issues a further reminder 3 months before.

There have been some changes to the staging dates and details can be found on our website.

The regulations mean that it is **COMPULSORY** for all employers to contribute to a Qualifying Workplace Pension Scheme (QWPS) for eligible employees.

HOW DOES IT WORK?

From October 2012 all employers, regardless of size, are required to auto-enroll all eligible employees into a QWPS.

To ease the administration burden the Government is phasing in membership from 2012 through to 2017 starting with the largest employers first. A full list of the current staging dates is available on our website.

It is possible to bring your staging date forward but not possible to delay it. A list of available earlier staging dates is provided by TPR. Employers who want to bring forward their staging date must notify TPR at least one calendar month before the new chosen staging date.

Employers with more than one PAYE scheme will have their staging date determined by their largest PAYE scheme. Small employers who are part of a larger PAYE scheme may have a later staging date than the PAYE scheme if they have less than 50 employees.

Employers will be required to register their pension scheme with TPR within 5 months of their staging date.

ELIGIBILITY

There are three types of employee ('jobholder' as defined by the new

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legislation) that need to be considered:

- Eligible Employees
- Non Eligible Employees
- Entitled Workers

Only "eligible employees" have to be automatically enrolled but the other two groups have certain rights under the regulations.

"Eligible employees" are those aged between 22 and state pension age and earning more than £10,000 per annum. Temporary and contract workers must be included (but not agency staff).

"Non eligible employees" are those who earn between £5,772 and £10,000 and fall outside of the age criteria for automatic enrolment. They have the right to opt in and, if they choose this option, the employer must contribute.

"Entitled workers" can choose to join the scheme but the employer does not have to contribute. Entitled workers are those earning below £5,772 per annum and aged between 16 and 74.

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

The assessment of workers is therefore required on the following:

- On the staging date
- Whenever a new employee joins after the staging date
- On an employee's 16th birthday after the staging date
- On an employee's 22nd birthday after the staging date
- On the employer's re-enrolment date (normally every three years from the staging date)

CONTRIBUTIONS

Employers have a choice of contribution levels to suit their business.

Qualifying Earnings

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

These contributions are to be based on 'band earnings' (currently between £5,772 and £41,865) and are to include any bonus, commission, overtime payments, Statutory Maternity Pay, Statutory Sick Pay and Statutory Adoption Pay.

Basic Earnings (Tier 1)

A minimum 9% contribution of basic earnings of which the employer must pay at least 4%. Basic earnings must be based on earnings before deductions such as tax, NI, holiday pay and certain statutory benefits but it does not have to include variable pay such as bonuses, overtime and commission

Basic Earnings (Tier 2)

A minimum 8% contribution of basic earnings of which the employer must pay at least 3%. Basic earnings, as above, but **must** be at least 85% of the total wage bill.

Total Earnings (Tier 3)

A minimum 7% contribution of the total wage bill of which the employer must pay at least 3%. Total wage includes basic salary, bonuses, commission, car allowance, etc.

Employers will need to be able to certify that their pension scheme meets one of the above contribution levels.

In addition to contributions, to meet the qualifying criteria a scheme must be an occupational, personal or stakeholder pension scheme and be tax registered.

If a scheme is already in place it is important to check that the scheme and provider will allow for auto enrolment and not require an employee to receive information prior to joining.

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

Salary exchange will also be permitted for auto enrolment and minimum contributions will be based on the post exchange earnings.

Employees must however be able to choose **not** to use salary exchange even if they remain in the pension scheme .

Contributions into a QWPS will be phased in over 3 phases:

Phase 1—Staging Date to 30 September 2017

Phase 2—1 October 2017 to 30 September 2018

Phase 3—1 October 2018 onwards

In terms of contributions, this has the following effect, if using:

Qualifying Earnings:

Phase 1 will require a minimum employer contribution of 1% of banded earnings with the employee contributing 1% gross. Total 2%.

Phase 2 will require a minimum employer contribution of 2% of banded earnings with the employee contributing 3% gross. Total 5%.

Phase 3 will require a minimum employer contribution of 3% of banded earnings with the employee contributing 5% gross. Total 8%.

Basic Salary (Tier 1) - 9% contribution rate

Phase 1 will require a minimum employer contribution of 2% with employees contributing 1% gross. Total 3%.

Phase 2 will require a minimum employer contribution of 3% with employees contributing 3% gross. Total 6%.

Phase 3 will require a minimum employer contribution of 4% with employees contributing 5% gross. Total 9%.

Basic Salary (Tier 2) - 8% contribution rate

Phase 1 will require a minimum employer contribution of 1% with employees contributing 1% gross. Total 2%.

Phase 2 will require a minimum employer contribution of 2% with employees contributing 3% gross. Total 5%.

Phase 3 will require a minimum employer contribution of 3% with employees contributing 5% gross. Total 8%.

Total Earnings (Tier 3) - 7% contribution rate

Phase 1 will require a minimum employer contribution of 1% with employees contributing 1% gross. Total 2%.

Phase 2 will require a minimum employer contribution of 2% with employees contributing 3% gross. Total 5%.

Phase 3 will require a minimum employer contribution of 3% with employees contributing 4% gross. Total 7%.

EMPLOYEE OPT OUT

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

Eligible and non-eligible employees have one month from their auto enrolment date to opt out and have their contributions refunded.

Employees must opt-out through the pension provider and **not** the employer.

If an employee opts out, the employer must stop deducting contributions from pay and make a refund of any contributions that have already been taken.

If an employee leaves the scheme after the opt-out period they are not entitled to a refund of contributions.

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

DEFINED BENEFIT SCHEMES
(Final Salary Schemes)

These schemes will qualify as a QWPS if:

- A current Contracting Out certificate is in place
- The accrual rate for Contracted In schemes is broadly 1/120th of earnings or better for each year of membership.

There are additional criteria to be met on 'average salary' schemes, notably relating to revaluation of benefits.

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 assess their workforce to determine which types of worker they employ.
- Employers must register with the Pensions Regulator within 5 months of their staging date.
- Employers must auto-enroll employees within 3 months of becoming eligible into a QWPS.
- Employer must deduct employees' contributions from salary and pay to QWPS.
- Employer must process opt outs and make refunds.
- 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 of the auto enrolment and opting out process for a prescribed period of time and provide to TPR if requested.
- 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.
- Employers must re-register the scheme every 3 years with the Pensions Regulator.

Employers who fail to comply will be given 1 written warning followed by a £400 fixed penalty.

Persistent offenders will receive a daily penalty based on the number of employees. The fines can be as much at £2,500 per day for those with between 50 and 249 employees.

Failure to comply may also result in up to two years imprisonment.

MGP

MGP offer employers a range of services for Auto Enrolment:

- Advice and guidance through the legislation.
- Review of existing pension schemes.
- Research and advice on new schemes.
- Implementation of new schemes.
- On-going services for new or existing schemes.
- Employee Presentations.
- Pension Surgery Days for Employees.

Our aim is to take on board the majority of the burden the legislation imposes by acting as the employer's 'Pension Department'. This will allow employers to continue doing what they do best — running their business.

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 up to 4 years to comply and it is recommended that planning starts at least 12 to 18 months prior to your staging date.

For further information and support call MGP now.

MGP's pension advisers can be contacted on
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