

# Pension Reform – Auto Enrolment

## Summary of the Requirements

Employers will be required to enrol most workers (known as jobholders) into a pension scheme and make contributions to it. The pension scheme must meet certain minimum requirements so that it is a Qualifying Scheme (QS). The date from which employers will need to do this varies from employer to employer and is called the 'staging date'. The earliest staging date was October 2012 and employers can find out their staging date from The Pension Regulator's website: www.tpr.gov.uk/automatic-enrolment.

Auto enrolment will have a major impact on employers, particularly for those with no current provision, or current low pension membership participation rates.

## Auto Enrolment

From their 'staging date' employers will have to:

- Choose the QS to discharge the newly arising duty and enrol qualifying workers into the QS; and either
- Make a minimum 3% contribution towards a defined contribution scheme (based on Qualifying Earnings) which will be phased in (see table overleaf) or
- Offer membership of a defined benefit scheme which either has a contracting out certificate or meets the 'test scheme standard' – see overleaf.

Employers will also have an ongoing duty to maintain qualifying pension provision for workers who:

- Are already members of a QS; or
- Become members of such schemes.

## Auto Enrolment - the basics

All employers will have to auto enrol workers who are:

- Aged between 22 and State Pension Age and
- Earning more that the 'earnings trigger' in each pay reference period and
- Not currently in a QS.

A QS can be a personal pension scheme or an occupational pension scheme (as long as it meets the prescribed requirements explained overleaf).

Workers of all employers, irrespective of size, must be auto enrolled if they meet the criteria above. Employers will be able to delay auto enrolment of new workers for up to three months from the date they join service.

## Opting Out of Auto Enrolment

Workers will be able to opt out of the scheme during the designated one month opt out period from their auto enrolment date, if they choose not to participate. They will also be entitled to a refund of any contributions they have paid following auto enrolment. Workers who opt out have to be re-auto enrolled on every third anniversary of the employer's staging date and they can on each occasion decide to opt out. If a worker wishes to rejoin the scheme having previously opted out, then the employer must allow this at least once every year.

## What is a Qualifying Scheme?

A QS needs to meet the following prescribed requirements:

- **Defined Benefit Schemes** – Contracted-out schemes will qualify automatically. Contracted-in schemes will qualify if accrual rates are at a level of at least 1/120ths of qualifying earnings (the 'test scheme standard').
- **Defined Contribution Schemes** – The total contribution to the scheme must meet the minimum in the table (see below). Different minimums apply if tiered earnings are used. In addition there has to be a default fund so that employees do not have to make an investment choice.
- Where a personal pension is used then a Legal Agreement with the provider is required.

## Qualifying Earnings

Qualifying Earnings will be total earnings (i.e. not restricted to base salary), which fall within an earnings band (£5,772 to £41,865 in 2014/15). The upper and lower earnings limits will be reviewed each year.

Contributions will not start unless a worker's earnings exceed the 'earnings trigger'. Depending on the structure of pay reference periods, the earnings trigger will be £192.00 if employees are paid weekly, £833.00 monthly and £10,000 annually for 2014/15. Employees who earn less than the lower limit can pay contributions voluntarily, but the employer will not be obliged to make payments.

Contributions can be based on:

- Qualifying earnings, as detailed above (taking account of overtime and bonus)
- Pensionable earnings, where the pension scheme meets higher statutory minimum contribution levels, known as 'tiered' or 'sets' earnings.

## Minimum Contributions

From October 2018, the statutory minimum contribution into the scheme will be 8% of an employee's Qualifying Earnings, made up of an employer's contribution of 3%, a member contribution of 4% and 1% from the Government in the form of tax relief.

The statutory minimum contribution rates will be phased in as set out in the following table:

| | Minimum Employer | Minimum Personal | Tax Relief |
|---|---|---|---|
| Oct 2012-Sept 2017 | 1% | 0.8% | 0.2% |
| Oct 2017-Sept 2018 | 2% | 2.4% | 0.6% |
| From October 2018 | 3% | 4% | 1% |

*Note: Different rates are applicable to tiered earnings.*

## Staging dates

Staging refers to the obligation applying to employers from a date dependent on their PAYE size on 1 April 2012 and PAYE reference number.

Staging Dates can be found at: www.tpr.gov.uk/automatic-enrolment.

## Declaration of Compliance

An employer has to advise The Pension Regulator how they have met their auto enrolment duties and provide details of their scheme within five months of their staging date. The details will be checked against the employer PAYE scheme data. This information has to be confirmed every three years.

## Penalties and fines

The Pension Regulator will have the ability to impose penalties and fines if an employer does not comply with their staging date and ongoing duties. These include:

- A fixed penalty of £400 where an employer fails to respond to a warning notice. A warning may be given (for instance) where an employer is accused of offering inducements to encourage members to opt out or leave the scheme.
- An escalating penalty of £50 to £10,000 per day (depending on the size of the employer) for example where an employer fails to pay contributions to the scheme on time (i.e. by the 19th of the following month).
- A fixed penalty of £1,000 to £5,000 for prohibited recruitment conduct, for example where an employer screens job applicants for their intention to join the scheme.



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