Automatic enrolment
First of all, I would like to introduce myself to you. My name is Iain Lowe from a company called 2plan Wealth Management Ltd.

Why 2plan?
We are a network of professional independent financial advisers, based throughout the UK, backed up by high quality service and support. Our focus is to bring together the best of products in the whole of the market to provide financial planning and wealth management for private investors and businesses across the UK.

Our philosophy is always to ensure that the client experience is paramount, which means we pride ourselves on building trusted and long lasting relationships.

We will assist you in the step by step process in order to get your own individual Qualifying Workplace Pension scheme up and running for the benefit of you and your employees.

The government has known for that last 25-30 years that they have a “pensions time bomb” on their hands, so much so that they had to introduce a forced way of saving towards retirement. Not many people were saving for retirement in the past and with the UK population living longer, under the current system, the government will potentially have to support more and more retirees over the longer term.
In an effort to reduce their future liabilities, it is their plan to have the majority of the UK work force in some form of retirement plan by 2018. They have therefore, after a considerable consultation period, which started back in 2002, introduced a workplace pension, which came into force in October 2012. (This started with the largest employers first)

The pensions industry has a responsibility as well to make sure that the pensions on offer are fit for purpose. That is, they provide an environment that affords members a safe place to save and where the choices they make receiving a good outcome from their savings.

That brings me back to the **automatic enrolment challenge:**

- This is to ensure that every employer plays their part in making this a success
- They comply with the new duties,
- They enrol their employees in a pension scheme;
- And provide them with the right information;
- But fundamentally do not engage in any prohibited practices in recruitment or inducement.

What is automatic enrolment?

Between October 2012 and February 2018, depending upon their size, employers will be required to provide pension schemes for nearly all of their employees. Employers will be required to pay a minimum level of contributions to those schemes, as will employees.

Even if an employer already provides a pension scheme for their workforce, and makes pension contributions for their employees, they will still have some new obligations to meet.

KEY POINTS

Employer duties are to:

- Pay contributions for your employees of at least a minimum amount
- Auto enrol and re-enrol all qualifying employees into a qualifying scheme
- Register the qualifying scheme with the Pension Regulator

And they cannot:

- Encourage workers to opt out of the qualifying scheme
- Discourage employees from joining the scheme

What do you need to do?

Employers must automatically enrol certain employees into a pension scheme and make a contribution of at least a minimum level towards it. Not all employees have to be automatically enrolled into a scheme, only those who are aged between 22 and state pension age who earn more than £10,000 per annum (2014/15) and work in the UK. These employees may choose to ‘opt out’ of the scheme but only after they have been automatically enrolled by you. You are also required to tell <u>any</u> other workers you may have, that they can opt into the scheme.

WHAT ABOUT THESE OTHER EMPLOYEES?
Non-eligible jobholders: These are employees who are aged 16 to 21, or are between State Pension age and age 75, and that earn over £5,772 per annum.

These are workers who fall outside the criteria for automatic enrolment so the employer is not compelled to enrol them. However, they have the right to "opt in" to the scheme and the employer must contribute to their pension scheme if they do.

Entitled Workers: Ironically "entitled workers" are entitled to nothing! These workers who earn below £5,772 a year and as such, they need not be auto-enrolled and the employer does not need to contribute on their behalf. They are allowed to "opt in" to the pension, but even if they do, the employer still does not have to contribute to their pension.

Much of the categorisation is based on age and salary, both of which are subject to change. The potential problems arise when the employer will have to review the payroll monthly to identify any changes in entitlement, and then take action accordingly.

WHEN DO EMPLOYERS HAVE TO START DOING THIS? - STAGING DATE – This is crucial!!!
An employer will be given a date from which these requirements will have to be in place. This is known as the employer's **<u>'staging date'</u>**. Firstly your staging date is the date when the new pension rules are 'switched on' for your business.

Staging dates determine when the duties apply to you organisation, based on the size of your PAYE scheme on the 1st April 2012 as held on HMRC returns. <u>The Pensions Regulator will notify you 12 months prior to your staging date and send you a reminder three months before.</u> You can check your staging date by going into The Pensions Regulator website.

Secondly, your registration date, the date you have to provide information to the regulator (5 months after your staging date).
Registration is the legal requirement to submit information to the regulator about how you've complied with your employer duties. You can do this by providing details to them online. If you don't do it in time, you could be fined.

WHAT PENSION SCHEMES CAN BE USED TO MEET THESE REQUIREMENTS?
Only schemes that meet the Qualifying Scheme standard can be used for these requirements. NEST is a pension scheme, designed specifically with the needs of low to medium income earners in mind.

NEST has a public service obligation so must accept any employer, but it is important that employers do not think of automatic enrolment and NEST as synonymous. NEST is one of a number of new or existing pension schemes that employers can choose to fulfil their new duties.
What is most important is that employers look closely at the schemes on offer and choose the one which best meets the needs of their workforce. **We will assist you with this.**

WHAT IS THE <u>MINIMUM</u> QUALIFYING SCHEME STANDARD?
Simply, a qualifying scheme is one that receives at least a minimum level of contributions.

WHAT IS CERTIFICATION?
Many existing schemes base contribution amounts on percentage rates of pensionable pay. The definition of pensionable pay is likely to be different to qualifying earnings. For example, pensionable pay may be based on basic pay and may require contributions to be deducted from the first pound earned rather than on a band of earnings.

In recognition of this, employers are able to self-certify that they meet the minimum contribution requirement if the scheme requires (or agreement, in the case of a group personal pension) contributions in accordance with one of the following criteria.

1. A total contribution of 9% of pensionable earnings (with an employer contribution of at least 4% of pensionable earnings).
2. A total contribution of 8% of pensionable earnings (with an employer contribution of at least 3% of pensionable earnings) provided pensionable earnings are at least 85% of total earnings.
3. A total minimum contribution of at least 7% of all earnings (with an employer contribution of at least 3%).

For criteria 1 and 2 pensionable pay must be at least equal to basic pay.

Look, there are a lot of figures here, but you do not need get concerned at this point. We can again, assist you with the most cost effective Scheme and option for you organisation.

WHAT CONTRIBUTIONS WILL HAVE TO BE MADE?
There must be a total minimum contribution in respect of each worker of at least 8% of qualifying earnings (qualifying earnings are defined below). Of this at least 3% of qualifying earnings must be an employer contribution with the remaining 5% payable by the employee including HMRC's added basic rate tax relief. The qualifying earnings band is designed to set minimum contributions, not a maximum saving level.

QUALIFYING EARNINGS
Qualifying earnings refers to earnings between £5,772 and £41,865 (2014/15) These being equivalent to the National Insurance contribution lower and upper earnings limits.
They can be made up of any of the following components:

- Salary
- Wages
- Commission
- Bonuses
- Overtime
- Statutory sick pay
- Statutory maternity pay
- Ordinary or additional statutory paternity pay
- Statutory adoption pay

Calculating the minimum contribution as a percentage of all these earnings components can be complex. However, there is an alternative known as certification.

WHAT DO YOU NEED TO DO NEXT?
Issue communications to all employees about how auto-enrolment affects them

Employees who are not already in the scheme need to be told when a waiting period starts and ends and what the possible outcomes of assessment could be. For example, eligible employees may be automatically enrolled. You also need to issue a confirmation to employees who are already in the scheme on a qualifying basis.

You may also have eligible jobholders who are already in the scheme but not on a qualifying basis. The contributions for these members will need to be increased to the minimum. To reduce the number of tasks you have to do at the one time, you may want to contact those members before your staging date.

These communications should be issued by your staging date, however you have the option to delay the communications for up to six weeks for employees not in the scheme, and for two months for those already in the scheme.

Complete scheme certification
Depending on your contribution basis, you may need to complete scheme certification.
Your contribution basis refers to the definition of pay that will be assessed in determining contributions into your qualifying scheme.

Your contribution basis must meet or exceed a minimum quality standard. You can use certification to make sure you're meeting the minimum requirements.

Complete scheme registration
You need to provide information to The Pensions Regulator about how you 've complied with your auto- enrolment duties, for example, how many people you've auto-enrolled. You must complete registration within 5 months of your staging date.

Registration is mandatory, even if you don't have anyone to auto-enrol, and you could get fined if you don't do it on time.

You can complete your scheme registration online at The Pensions Regulator's website.

WAITING PERIOD
WHAT IS IT?
You can't delay your staging date. You still need to set up the Qualifying Workplace Pension Scheme (QWPS) and communicate to your employees at staging. However, you can delay some of your duties to suit your business processes and systems better. This is known as a waiting period and can be a key way for you to reduce the administrative burden by aligning your new duties with the way your business works.

To make things easier for you, your waiting period can be aligned to the first date of your pay reference period (unless your pay reference period is already aligned to your staging date). This makes your administration more straight forward, as it avoids you having to make decisions around part payments.

Applying a longer waiting period to your staging date can give you more time to:
- Get data ready for assessment and put systems in place
- Change employment contracts (if using the contract of employment joining method)
- Get employee consent to participate in salary exchange

It can also be used to avoid certain payroll periods, such as a period when employees work more overtime than usual or receive an annual bonus. This can help avoid enrolling people into the pension scheme who would not normally be eligible.

WHAT DO YOU NEED TO DO?
- Assess your workforce
  You must assess the eligibility of each employee based on age and earnings criteria. This is normally carried out at the end of your waiting period, however you can do this within one month following this date.

- Enrol eligible Employees
  You must automatically enrol eligible employees if they are not already in a QWPS.This is normally carried out at the end of your waiting period, however you can do his within one month following this date.

- Update payroll
  You need to update your payroll system so that the relevant employees will have their pension payments deducted from their salary on an on-going basis.

OPT OUT PERIOD
WHAT IS IT?
Employees have one month from the date that they are joined to the scheme to decide if they want to opt out of it. This is known as the opt out period.

WHAT DO YOU NEED TO DO?
As part of the new duties, employers have a responsibility to deal with any employee requests to opt out of the scheme.

You'll then need to:

- Update your payroll systems with information on those who have opted out, to stop taking contributions from their salaries
- Refund contributions for employees who have opted out
- Pay contributions to your pension provider for employees who did not opt out

PAYROLL CUT OFF
WHAT IS IT?
This is the deadline when your payroll must receive instructions (such as new employees, changes to pay and leavers) for them to be reflected in the salary for that pay period.

WHAT DO YOU NEED TO DO?
You will need to update your payroll system with information about those employees who have opted out. This is so that you can:

- Stop future payments for employees who have opted out
- Refund payments to employees who have opted out after the payroll cut off date (and so have already had a pension payment taken from their salary)

It's important to update your payroll system for opt outs just before your payroll cut off date to minimise the number of refunds you have to process later.

If your payroll frequency is weekly you may need to carry out these tasks several times throughout the opt out period. Might be a consideration to move to monthly payroll.

SALARY PAY DAY
WHAT IS IT?
Your salary pay day is the day you pay employees (and deduct their pension contributions).

WHAT DO YOU NEED TO DO?
This is when payroll deduction begins. Employees who have not opted out will see the effect of pension deductions for the first time. This may prompt a rise in the number of opt outs, so you should be prepared.

LATEST PENSION PAY DATE
WHAT IS IT?
Your deadline to pay pension contributions to your pension provider.

WHAT DO YOU NEED TO DO?
You will need to pay pension contributions to your pension provider for employees who have not opted out (employer and employee contributions).

To simplify your administration, consider paying the first contribution to your pension provider by the 22nd of the month following payroll deduction. Then, the second contribution by the 22nd of the second month following payroll deduction.

TRIENNIEL REVIEW DATE
WHAT IS IT?
Roughly every three years, you must automatically re-enrol eligible employees who opt-out.

There is some flexibility within the rules which you can use to make the journey easier. Your first triennial review date is set up as approximately three years on from your initial staging date but you can choose to bring this forward, or push it back by up to three months.

WHAT DO YOU NEED TO DO?
On your triennial review date, you will need to re-assess employees who have opted out and auto-enrol those eligible into the scheme. The exceptions to this are those that have opted out in the 12 month prior to the triennial review date as they do not need to be re-assessed again until the next again triennial review date. At this stage you also need to re-register the scheme with the Pensions Regulator to confirm what you have done to comply with your re-enrolment duties.

WHAT HAPPENS IF YOU DO NOT COMPLY ON TIME?
The Pensions Regulator will work with employers to educate and help them to comply with their new duties. However, they have the option to take action against employers who won't comply.

This action follows 3 steps. –

Step 1 – Compliance notice
The first formal step The Pensions Regulator will take is to issue a compliance notice to the employer. This will set out what must be done to stop the breach, and will allow the employer a reasonable amount of time to rectify the situation.

Step 2 – Fixed penalty

If the non-compliance continues, The Pensions Regulator may issue a fixed penalty fine of £400. A fixed penalty is likely to be issued where an employer has failed to take satisfactory action in response to a compliance notice (step 1). The employer will be given a minimum of 4 weeks to pay the fixed penalty and will need to demonstrate they have rectified the breach.

Step 3 – Escalating penalty

If the employer continually fails to take satisfactory action to rectify the situation, The Pensions Regulator can issue a further fine based on the number of employees the employer has in their PAYE scheme. This fine will accrue at a daily rate until the employer complies. This is known as an 'escalating penalty' and the daily accrual rate is:

- Number of people 1-4 - £50
- Number of people 5-49 - £500
- Number of people 50-249 - £2,500
- Number of persons 250-499 - £5,000
- Number of people 500 or more - £10,000

TEN COMMANDMENTS TO ENSURE YOU REMAIN COMPLIANT

AUTOMATICALLY ENROL ELIGIBLE JOBHOLDERS

Every employer has to ensure that employees and other workers who qualify as 'eligible jobholders' are enrolled into a 'qualifying pension scheme'. The scheme must be set up in such a way that the jobholder joins automatically without the need to make any decisions at all.

COMMUNICATE ABOUT WAITING PERIODS

There can be a waiting period of up to three months before jobholders are automatically enrolled. Jobholders must be formally told about this waiting period. Importantly, the notice must also explain that the jobholder has the right to opt in to the scheme before the automatic enrolment date.

PAY COMPULSORY EMPLOYER CONTRIBUTIONS

Employers with final salary schemes will have to provide a minimum level of benefits. Employers with 'defined contribution' schemes, such as a group personal pension, will have to pay a minimum level of contribution. The actual amount payable will depend on the definition of pensionable pay for the pension scheme but will ultimately be 3% - 4% of pensionable payroll.

ADMINISTER THE OPT-OUT SYSTEM

Jobholders who have been automatically enrolled have the right to opt-out of membership, by giving notice to the employer. If a member opts out within the legal time limit, their membership of the pension scheme must be cancelled from inception and all payments, including employer contributions, refunded. Every employer will have to administer this process and liaise with the trustees or scheme provider as appropriate.

REGISTER WITH THE PENSIONS REGULATOR

Employers will have to register with the Pensions Regulator and provide details of how they have complied with their duties. The timescale for doing this has been extended from within four months to within five months of an employer's staging date with effect from 1 April 2014. For example, an employer with a staging date of 1 March 2014 will now have to register by 31 July 2014. Thereafter employers will have to re-register every three years.

ENROL OTHER JOBHOLDERS WHO OPT-IN

Jobholders who are not members of a qualifying scheme will be entitled to opt-in to a qualifying scheme if they want to. When they do so, employers will have to arrange for them to start or restart active membership and commence payment of employer contributions for that member.

ENROL WORKERS WITHOUT QUALIFYING EARNINGS WHO OPT IN

Employees and workers who do not qualify as jobholders because of low earnings will be entitled to join a pension scheme by giving a joining notice. If they do this, employers will have to arrange for them to start or restart active membership. However, employers will not have to make any employer contributions for these workers who request to join.

AUTOMATICALLY RE-ENROL EMPLOYEES WHO PREVIOUSLY OPTED OUT

Every three years, employers will have to automatically re-enrol any eligible jobholders who are not already members of their qualifying pension scheme. The exact date can be adjusted three months either side of the three-year anniversary. Any jobholder who opted out in the previous 12 months does not have to be re- enrolled.

PROVIDE INFORMATION

Employers will have to support the whole process by providing information to jobholders and workers as required by regulations. This includes specific information to be given to jobholders when they are enrolled or re-enrolled and details of the options available to them.

RETAIN RECORDS
Employers will have to keep records of the whole automatic enrolment process for at least six years. This will include information about their chosen qualifying schemes, the jobholders and workers who joined their scheme and associated paperwork such as opt-in and opt-out notices.

Summary
Auto enrolment is compulsory and ignorance is no excuse, as the regulator will fine any organisation failing to implement a workforce pension. It is therefore not an option, not to do this but finding the best option that works for you. We have the expertise and knowledge to get this implemented at the most cost effective price for you.

Therefore, once you are in receipt of your staging date, I would urge you to contact me at your earliest convenience in order that we can assess your needs and work out what would be the most cost effective and most suitable workplace pension for each of your organisations.

Finally, A Few Statistics for you;

- One of the more concerning figures is that 12% of micro employers said they would leave it as late as possible before thinking about how to comply.
- However, 58% of micro employers agree that the introduction of automatic enrolment is a good idea for their employees and the same percentage also believe that it is their responsibility to look after their employees' long-term future, irrespective of legal duty.
- The CBI research shows that, in total, around 75% of all employers will seek advice from an intermediary or pension professional.

- Almost half of micro employers and a quarter of small employers are expected to turn to their accountant for advice. That's over 500,000 employers, many of whom to-date have had little, if any, dealings with pensions. Many accountants still feel it's not their role to give advice on pensions reform, but the numbers suggest they are unlikely to avoid being asked for support.

- Over 750,000 of small/micro businesses (fewer than 50 employees) likely to have to be ready for their staging dates, which will fall between the start of 2015 and end of 2017. With such high numbers many are predicting a real risk of providers and advisers running out of capacity. (We recommend employers start preparing for auto-enrolment at least 12 months before their staging date, if not earlier).
- On the first anniversary (1st October 2013 of the government's flagship pension reform. Here are the vital statistics. **2,256** - Employers who have auto-enrolled, **29,000** - Employers staging during January-July 2014, **1.6 million** - Auto-enrolled workers to date, **1.7 million** - workers who do not qualify for AE, **9 million** - new savers to be created by February 2018, **9%** - Overall opt-out rate according to the Department for Work and Pensions (DWP), **89** - The Pensions Regulator (TPR) investigations into non-compliance, **38** - TPR warning letters, **1** - TPR compliance notices, **£15.4bn** - Estimated set-up costs for all employers, **53%** - proportion of employers using the National Employment Savings Trust (NEST) who spent more than 10 months preparing for AE, **65%** - proportion of employees who are aware of AE.

DWP (Department of Work and Pensions)
https://www.gov.uk/government/.../department-for-work-pensions

The Pensions Regulator - www.thepensionsregulator.gov.uk