

A Step by Step Guide to Auto-enrolment and Workplace Pensions

For employers and those involved in HR and Payroll



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Auto-enrolment and Workplace Pensions

Auto-enrolment is the biggest change to Workplace Pensions for generations. The crux of it is about ensuring more and more employees are saving for retirement and that they have a pension. As a consequence of the changes to Workplace Pension legislation, all employers will be required to ensure more of their employees have a Workplace Pension.

The term and phrase Auto-enrolment has come about and is being widely used as it refers to the process and requirement whereby employers will need to automatically enrol certain employees into a pension scheme, a Workplace Pension.



Who does it affect?

In general terms Auto-enrolment applies to all organisations and individuals that employ people, regardless of the number of people they employ.

More specifically, Auto-enrolment relates to all employees aged between 22 and the state pension age, who currently earn more than £10,000 per year and who are not already in a qualifying Workplace Pension scheme.

For employees aged under 22 or over state pension age, should they wish or request to be part of enrolment then an employer must allow them to do so.

There is no requirement for the employer to pay minimum contributions if such employees earn less than £5,824.

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When does it come into effect?

To help manage the introduction of Auto-enrolment and allow time for organisations and individuals to put plans in place the government has devised a timetable for take-up or staging dates. An employer's staging date is determined by the number of employees forming their PAYE scheme as at 1st April 2012.

Whilst many larger employers have already been required to implement Auto-enrolment, many smaller employers are still to do so.

There is a significant number of employers due to stage in 2016/17 and The Pensions Regulator has written or will be writing to them prior to their staging date. They will inform employers that they need to start preparing straight away with the nomination of a point of contact and the development of a plan.

The Pensions Regulator's essential guide to Auto-enrolment can be obtained by visiting www.thepensionsregulator.gov.uk/docs/the-essential-guide-for-automatic-enrolment.pdf

Auto-enrolment staging dates

- Employers with fewer than 50 people in their largest PAYE Scheme will be staged between now and 1st April 2017

Note that all employers are able to bring their staging date forward. You may choose to do this to align it with other business practices, like the start of your financial year. If you plan to do this, you must notify The Pensions Regulator.

New employers setting up a business from 1st April 2012 up to and including 30th September 2017 will have a staging date between 1st May 2017 and 1st February 2018. Such dates are based on when the employer first pays PAYE and not the number of people employed. Please note that new employers starting from 1st October 2017 will have immediate Auto-enrolment duties.

How much are the contributions?

There is no minimum employee contribution. There is a minimum total of 2% of qualifying earnings of which the employer must pay 1%. If the employer chooses to pay the full 2%, say through salary exchange, then there is no minimum due from the employee. If the employer limits its contribution to its legal minimum then the employee will pay the balance.

The contributions payable relate to earnings bands ranging from, at present, £5,824 up to a maximum of £42,385. Therefore there is a ceiling for total payments under Auto-enrolment.

When do you need to take action?

Experience shows that ideally you need to start looking at the implications and implementation of Auto-enrolment 12 months prior to your staging date, the date at which you are required to have a qualifying scheme in place.

Certainly the time and work required to establish the process invariably takes longer and is much more involved than most first think, not least for the smaller organisations with greater demands on resources.

What if you already have a pension scheme?

You may already have an existing pension scheme in place, however this might not be appropriate, in that it doesn't include or is not open to all employees. You will need to check if it does or could comply and whether you can enrol other employees into it. It may be that an alternative appropriate pension scheme will need to be set up.

If you have an existing defined contribution scheme then you can assess whether such a scheme meets the minimum criteria for an automatic enrolment scheme by visiting www.tpr.gov.uk/DC-qualifying-scheme-tool

What if you don't have a pension scheme in place?

If, like many organisations and employers, you don't have a pension scheme in place then you will need to find one. Such schemes include the National Employment Savings Trust (NEST), which has a public service obligation to accept all employers that apply to join it. This obligation is regardless of employee numbers or the overall value of contributions.

Details of other providers can be obtained by contacting Streets Financial Consulting plc* – please email autoenrolment@streetsweb.co.uk or call 01522 536108.

*Streets Financial Consulting Plc is authorised and regulated by the Financial Conduct Authority.

How do you go about implementing Auto-enrolment in your organisation?

The work involved in setting up an approved Auto-enrolment scheme should not be underestimated; for those employing a large workforce with dedicated staff and resources it is much easier to deal with than those with a much smaller number of employees who will undoubtedly find the task a significant chore and burden.

Implementation can be made much easier by making sure you communicate with employees about Auto-enrolment at an early stage in the process – correct and early communication can reduce the number of employee queries further down the line.

For more information about the process an employer needs to follow in order to be compliant in meeting their Auto-enrolment duties, please visit www.thepensionsregulator.gov.uk

Others, including those initially thinking they will do it themselves, may find it more appropriate to seek external advice and support.

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What else does Auto-enrolment impact on in terms of your organisation or business?

Payroll

Other than introducing the scheme itself the biggest impact on the organisation will be that on its payroll procedures, processes and record keeping.

As part of planning for Auto-enrolment you will no doubt have to look at your payroll software and processes to ascertain if they are robust enough to deal with the new legislation. One key aspect will be the need to have records of those employees that have been informed of the pension scheme and have been given the option to opt out, with records kept of those choosing to opt out.

In considering the implementation of Auto-enrolment in your organisation you may want to consider how you manage your payroll. If you currently manage it in-house, it may, given the increased compliance and burden of Real Time Information (RTI) and Auto-enrolment, be appropriate to look at outsourcing payroll. Use of a payroll bureau can offer the benefits of being more cost effective and give you peace of mind that you are compliant with the new regulations.

If you use an in-house payroll system such as Sage Payroll then one of Streets' Accounting Software specialists can provide advice and support as required.

If you wish to consider outsourcing your payroll, Streets offer a comprehensive payroll service that is fully RTI and Auto-enrolment compliant. For a free quotation please get in touch with your regular Streets contact, email payroll@streetsweb.co.uk or call 01522 551230.

Employee status and contracts of employment

As part of the process of adopting Auto-enrolment you will need to review contracts of employment, the employee handbook and your process for employee engagement and new starters to ensure they are compliant and that they take into account the changes.

It will not only be the obvious sections that need amending but policies such as those relating to Data Protection may also need addressing.

What if employees do not wish to take part?

Employees that do not wish to enrol on or participate in a scheme can choose to opt out of the scheme after they have been automatically enrolled.

Can employers influence employees not to take part?

Employers cannot influence or prohibit any workers from participating in an Auto-enrolment scheme. Employers are also not allowed to offer other employee incentives in place of or as a substitute to Auto-enrolment.

What if you don't do anything and/or don't comply?

The obligation and requirement to comply with Auto-enrolment rests with the employer. Those employers who fail to comply or meet the regulator's requirements will be required to rectify any non compliance. Those that fail to comply, whether unintentionally or not, will face the enforcement powers of The Pensions Regulator. Such enforcements can range from informal action and guidance, through to statutory notices to comply and ultimately financial penalties. Such penalties start with a fixed penalty fine of £400 escalating to daily fines of between £50 and £10,000 where employers have failed to comply.

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Useful contacts

Streets Financial Consulting plc*

As pensions specialists, the team at Streets Financial Consulting plc*, the independent financial planning arm of Streets Chartered Accountants, are able to guide and support you through the process of establishing an Auto-enrolment scheme that meets your needs and those of The Pensions Regulator.

The work of financial planners includes:

- An initial consultation – an assessment is made of the workforce and a bespoke report is prepared to ascertain the impact Auto-enrolment will have on the organisation from a financial and administrative perspective.
- Research and recommendations – our financial planners research and recommend an appropriate scheme to meet Auto-enrolment requirements.
- Employee clinic with Auto-enrolment solutions/recommendations.
- Scheme implementation – providing support and assistance with the full implementation process to integrate the scheme structure.

Fees for this work are charged on a time spent basis with fee quotations provided on request and prior to commencement of any work. For a free quotation and an indicative fee proposal please email autoenrolment@streetsweb.co.uk or call **01522 536108**.

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Beststart Human Resources

From this guide, you will now understand that Auto-enrolment is not just about choosing a pension scheme. The regulation dictates communication, administration processes and record-keeping requirements which add a new dimension to making it work, both practically and financially, in small and medium sized enterprises. Beststart Human Resources can guide you through these elements if your internal HR resources are low.

Please visit their website www.beststarthr.com or contact them by phone **01438 747 747** or email enquiries@beststarthr.com for more information.

Streets Payroll

If you wish to consider outsourcing your payroll, Streets offer a comprehensive payroll service that is fully RTI and Auto-enrolment compliant. For a free quotation please get in touch with your regular Streets contact, email payroll@streetsweb.co.uk or call **01522 551230**.

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