

WORKPLACE PENSIONS & AUTO ENROLMENT

The following is a summary of the current position of the new state automatic enrolment pension scheme.

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1. INTRODUCTION

The new legal implications for employer duties and safeguards came into force in July 2012. This includes the responsibilities being placed on employers to automatically enrol eligible workers into a pension scheme. The following is our broad understanding of the legislation at this time.

2. WHO NEEDS TO BE AUTO ENROLLED INTO A COMPLIANT SCHEME?

All employees classed as eligible jobholders aged over 22 up to SPA (State Pension Age) earning over £10,000 pa in 2020/21 will need to be automatically enrolled.

All employees classed as non-eligible jobholders, aged 16 - 21 or between State Pension Age and 74 with earnings of £6,240 - £10,000 in 2020/21 can elect to opt in and hence obtain an employer's contribution.

There is then "Entitled Workers" aged 16-74 earning less than £6,240 pa who also have the right to join, but with no employer contribution.

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Office Holders, such as Non Exec Directors/Trustees/Board Members and Company Secretary also have to be enrolled.

New employees will not have to be auto enrolled for 3 months (but they can voluntarily join if they wish).

If the worker/employee has their contract of employment with an agency, then the Auto Enrolment responsibilities are with the agency, not the place of work.

The enrolment is designed to be completely automatic with employees having to actively **opt-out**. The pension scheme administrator must tell the employee about their right to opt-out of auto-enrolment, and how to get an opt-out form, as part of their enrolment information.

To help stop employers from encouraging employees to opt-out of a qualifying pension scheme, only the pension scheme administrator can supply opt-out forms to members. The employee can only opt-out **within 30 days** of being notified they are being auto enrolled into the scheme.

Every 3 years the employer has to undertake a re-enrolment exercise on all employees who have opted out of the auto enrolment plan. The employee will then be auto enrolled again and will have to follow the above procedure should they wish not to be in the scheme.

Employees who are close to the lifetime allowance (LTA) £1,073,100 fund or equivalent in 2020/21 **must opt-out** within 30 days of being auto enrolled - otherwise the implications in terms of lost pension benefits and tax charges are very significant.

3. WHAT WILL THE CONTRIBUTIONS BE?

The minimum contributions are being phased in over a 5 year period and will be as follows:

Date Effective	Employer (Gross)	Employee (Gross)	Total (Gross)
Until 05.05.2018	1%	1%	2%
06.04.2018 – 05.04.2019	2%	3%	5%
06.04.2019 onwards	3%	5%	8%

Employee contributions will be deducted from their salary net of basic rate tax relief (ie 0.8% net based on 1% gross contribution, and the pension provider will arrange for the additional tax relief (0.2% based on 1% gross contribution) to be credited to the employee's pension pot.

There is not a **maximum** contribution under auto enrolment, although some schemes (NEST for instance) will restrict the contribution to band earnings (£6,240 and £50,000 in 2020/21 terms) with a maximum contribution of around £3,500. It is expected that this band earnings will be scrapped in the next few years.

There are a number of definitions for pensionable pay for auto-enrolment (for example could be qualifying earnings, basic pay, total pay). This is very much depending on your wage bill and structure and what is right for your business and employees.

4. IS THERE A CHOICE OF PENSION PROVIDER?

The pension providers for this scheme are either the National Employment Savings Trust (NEST) or you can choose from a range of private pension providers.

4.1 What Are The Costs Payable By The Schemes?

The NEST scheme charges are currently:

Initial charge on contributions	1.80%
Ongoing fund management charge	0.30%

Private group scheme charges vary but will normally be broadly similar to NEST at the bottom end with perhaps a 1% annual charge and no initial charge. However as with everything in life, you get what you pay for so you need to make your decision based on what you believe is best for your company and staff.

4.2 Which Scheme Is Best For My Company?

This very much depends upon your requirements. NEST will ultimately be very cheap but as with any mass supply product where the scheme has no commercial ability to choose who it helps, the benefits are limited in what in it can provide (you must buy a guaranteed annuity for instance) and there is very limited choice with regard to investments.

Again, for good DIY enthusiasts NEST has standard templates and manuals available online and NEST has to take all individuals, unlike life companies who will often refuse to take on new members who have small premiums.

4.3 Can I Use My Current Pension Scheme?

You can use a current pension scheme for auto enrolment, providing it meets the criteria to be an auto enrolment scheme. This will include:

- The scheme must offer a default fund.
- The scheme must permit automatic enrolment.
- The scheme must automatically enroll new members within 3 months of joining the business.
- The scheme must meet the minimum contribution test and / or contribution levels.

Where your scheme is a few years old it may be better to move this to a newer model, comparing this option against NEST and other providers.

5. WILL IT COST THE EMPLOYER ANYTHING?

5.1 To Set Up The Scheme

It can be time consuming to set up an auto enrolment scheme, including researching the most appropriate scheme for your business and staff, writing to all staff, inputting data accurately, setting up systems to remind you to automatically re-enrol any member of staff who has opted out every 3 years and setting up payroll to deduct the employee's contribution.

Depending on your product provider chosen, there may also be a charge to set up the scheme with them.

5.2 Ongoing Management

Even for the smallest employer the requirements of the new auto enrolment will carry an ongoing burden of costs. Any additional software will need to be regularly updated, and you really need an outside expert to check your corporate governance at least once a year. For larger scheme we have seen costs of £5 a month per employee which is not an insignificant outlay.

Again, depending on your product provider there may be a monthly administration fee.

5.3 Fines For Non Compliance

The current fines for non-compliance are:

Number of Staff Employed	Fine Per Day
1-4	£50
5-49	£500
50-249	£2,500
250-499	£5,000
> 500	£10,000

These fines are imposed if the employer:

- Fails to register the scheme in time.
- Offers employees incentives to opt out.
- Fails to pay their monthly contribution in time (by 22nd of the following month usually).

6. SUMMARY

It is essential that you plan ahead. The Pensions Regulator suggests you should be looking for a scheme that is suitable for your business and employees at least six months before your staging date. However, some providers argue that 12 months is more sensible. Many of the best private pension providers are getting quite choosy on the schemes they will accept so if you want any choice you do need to start the process sooner rather than later.

You also need to plan for the increased cost to your business (eg increase in your wage bill, any scheme fees, adviser fees, ongoing administration fees, upgrades to software).

We would recommend you use a chartered financial planning practice to review your current and future staff pension considerations. If you want to know more, please contact us or have a look at The Pensions Regulator <http://www.thepensionsregulator.gov.uk> for more information.

Please note that whilst every effort is made to ensure that the information contained within this explanation is correct, these notes are by necessity brief and of a generalised nature. Clients should seek specific personalised advice prior to undertaking any arrangement. These notes were last updated in September 2020. Whilst we have done our best to ensure they are current to this date laws and options are changing constantly so always check before action. Document reference 09.2020 Workplace Pensions & Auto Enrolment.

E.&.O.E.