Chapman, Robinson & Moore
Accountants and Registered Auditors

Making the numbers work!

Auto Enrolment

What Is It?

An obligation that employers have to enrol eligible workers into a workplace pension scheme.

This obligation is from the employers staging date, which is dependent upon the number of employees as at 1st April 2012 and the PAYE reference number.

A staging date can be checked at http://www.thepensionsregulator.gov.uk/employers/staging-date. All that is needed to check this is the employers PAYE reference number.

The pension scheme must meet certain conditions in order to qualify as an auto enrolment scheme. Check with pension provider if currently have workplace pension in place.

Eligible Worker

All eligible workers who are not already a member of a qualifying scheme **must be auto enrolled.**

Eligible workers are: Aged between 22 and state pension age AND
Earns more than the 'earnings trigger' in a pay period

The earnings trigger is currently in line with the personal allowance (£10,000 p.a. for 2014/15), this is expected to rise in line with the personal allowance each year.

Non-Eligible Worker

If a worker is not auto enrolled then they can ask to be enrolled.

They will be between the age of 16 and 74 inclusive.

If a worker asks to be enrolled then the employer must contribute if the worker's earnings are above the lower earnings limit (£5,772 p.a. for 2014/15).

If they earn less than this, then the employer is not obliged to contribute, but can choose to. These are known as entitled workers.

Contributions

There are minimum contribution rates that must be paid into the scheme and there will be a phased increase in these. These are as follows

Period	Employer minimum contribution	Total minimum contribution
To 30th September 2017	1%	2%
1st October 2017 to 30th September 2018	2%	5%
From 1st October 2018	3%	8%

The contributions are based on a band of earnings that fall between the lower earnings limit (£5,772 p.a. for 2014/15) and the upper earnings limit (£41,865 p.a. for 2014/15).

Example 1: Worker earns £21,000 p.a. Therefore from 1st October 2018 the annual employer contributions will be £456.84 (£21,000 - £5,772 x 3%) and employee contributions would be £761.40 (£21,000 - £5,772 x 5%)

Example 2: Worker earns £50,000 p.a. Therefore from 1st October 2018 the annual employer contributions will be £1,082.79 (£41,865 - £5,772 = £36,093 x 3%) and employee contributions would be £1,804.65 (£41,865 - £5,772 = £36,093 x 5%).

NB. Examples based on current band of earnings limits.

Alternatively, there are 3 other options that the employer can use which are referred to as tiers and are based on different definition of earnings as follows:

Tier 1: Based on workers' pensionable pay.
Tier 2: Based on workers' pensionable pay provided that total pensionable earnings of all relevant workers to whom the tier relates adds up to 85% of their total remuneration.
Tier 3: Based on workers total remuneration, i.e. all earnings must be pensionable.

The contribution rates are again going to have a phased increase and they are as follows:

Period	Tier 1	Tier 2	Tier 3
To 30th September 2017	2% employer 1% personal	1% employer 1% personal	1% employer 1% personal
1st October 2017 to 30th September 2018	3% employer 3% personal	2% employer 3% personal	2% employer 3% personal
From 1st October 2018	4% employer 5% personal	3% employer 5% personal	3% employer 4% personal

The contributions are based from the first pound of earnings when using any of the tiers.

Salary sacrifice can be used for any of the four different ways of contributions being calculated.

Contributions must be paid to the pension provider by the 19th of the month following deductions. For example, contributions deducted on 31st January would have to be with the scheme by 19th February.

Opting Out

Workers who have been automatically enrolled, or who have opted in, have the right to opt out, but they can't do this before they have been enrolled.

The decision to opt out must be taken freely by the worker. There will be penalties and fines for any employer who is found to be influencing the decision of any workers as this is a breach of the law.

The opt-out period is one month from when active membership is created, or the worker receives the employer's letter with the enrolment information, whichever is latest. If the worker opts out within this time period, then they get a full refund of any contributions made.

Workers opt out by getting an opt-out notice **from the pension scheme** which they then complete and give to the employer.

When a worker opts out, the employer must stop payroll from deducting any further contributions straight away.

Once a worker has opted out of an employer's scheme, they will automatically be enrolled back into the scheme after 3 years, as long as they still qualify. The employer will need to write to the employee when they do this. The worker can opt out again by following the same procedure.

A key point to note is that even if all workers are opted out, a pension scheme must still be in place so if any workers opt in in the future, either automatically or voluntarily, then a scheme is in place to pay in to.

Postponement

Employers can postpone automatic enrolment for up to three months from certain dates as follows:

- staging date
- a worker's first day of employment
- the date a worker first becomes eligible for automatic enrolment.

If employers postpone from their staging date, it doesn't change the staging date.

If employers choose to postpone from their staging date, they must write to tell the workers who will be postponed within six weeks of the staging date.

Workers whose automatic enrolment has been postponed can choose to opt in to the pension scheme during the postponement

On the last day of the postponement period, employers need to know whether any worker whose automatic enrolment was postponed is still eligible to be automatically enrolled. If they are, they must be put into a pension scheme straight away. Employers cannot apply for a further period of postponement even if they postponed for less than the three months maximum allowed.

Single Director Companies

Companies that have just one director only have an exemption in place that means they are not an employer for auto enrolment. However, they need to notify the pension's regulator of this and the reason why. There is specific information that has to be included when notifying.

Companies that have more than one director/office holder, but only have office holders in the company, may be not classified as an employer for auto enrolment depending on whether they have contracts of employment in place or not. If no contract of employments then there are no workers and therefore the company is not an employer for auto enrolment.

However, please be aware of the possibility of a contract of employment being implied to exist by the pension's regulator.

Declaration of Compliance

You have 5 months from your staging date to submit a declaration of compliance to the pensions regulator.

This is to confirm that you have fulfilled all your legal duties in relation to auto enrolment.

Detailed Guidance

For more detailed guidance on auto enrolment then please visit the pension regulator website at the following address:

http://www.thepensionsregulator.gov.uk/employers.aspx