

Pensions auto enrolment

What does it mean for employers?

Major pensions changes confirmed

The Pensions Act 2011 confirming the requirement to automatically enrol staff into a pension plan was enacted on 3 November 2011. Auto enrolment means that if employees do nothing, they will automatically join their employer's pension scheme. Employees are able to opt out of the arrangement, but cannot be encouraged to do so.

Employers will have a staging date by when they will need to comply based on the number of staff on their payroll. The largest employers will be included from 1 October 2012.

While it is good news for employees who do not have a pension scheme, employers will face a significant administrative burden as well as the cost of the contributions.

Employers can use their own pension schemes or the National Employment Savings Trust (NEST). A system of fines will be introduced for non-compliance.

Issues you will need to consider:

Cost

- What would the cost be if all your employees joined your existing scheme?
- What options are available to you to help reduce the cost of implementation and administration?

Compliance

- Do you know what you need to do and by when?
- How do you ensure that contributions meet minimum levels where pension scheme contributions are based on basic pay?
- Can you easily identify who needs to be included?
- Should you wait for the deadline or implement changes to benefits earlier?

Your employees

- What can your business do to help employees appreciate the benefits of joining a pension scheme?
- Should you maintain existing pension scheme contribution rates if higher than the minimum?
- How will auto enrolment impact upon your current benefits and pension offering?

Who can ask to join

All those who earn over £5,715 (in 2010/11 terms) who are not automatically enrolled can ask to join and the employer would need to contribute. Staff in this category must be told that they can join.

When do these changes come into effect?

The deadline for compliance with the regime is based on the size of your largest payroll. Once that date is reached, all your payrolls are included. Different rules apply for defined benefit schemes.

Compliance dates by payroll size

Number of employees	Date
120,000 or more	1 October 2012
50,000 - 119,999	1 November 2012
30,000 - 49,999	1 January 2013
20,000 - 29,999	1 February 2013
10,000 - 19,999	1 March 2013
6,000 - 9,999	1 April 2013
4,100 - 5,999	1 May 2013
4,000 - 4,099	1 June 2013
3,000 - 3,999	1 July 2013
2,000 - 2,999	Staged dates likely to be between August 2013 and April 2015
1,250 - 1,999	
800 - 1,249	
500 - 799	
350 - 499	
250 - 349	
240 - 249	
150 - 239	
90 - 149	
50 - 89	
Under 50*	Likely to be from May 2015
New employers with PAYE income first payable from 1 April 2012	Date to be confirmed

*depending on payroll reference

Who will be included in auto enrolment?

All employees earning over the personal allowance (£7,475 in 2011/12) aged between 22 and the State Pension age will need to be automatically enrolled by their employer into a pension plan after a maximum of three months of employment. The individual can decide to join the pension scheme earlier.

What level of contribution will be needed?

The minimum contribution is to be based on total earnings between the National Insurance primary threshold (£5,715 in 2010/11) and an upper limit (£38,185 in 2010/11). Employees whose earnings are below the personal allowance but above the National Insurance primary threshold and those between state pension age and 75 can elect to be included and the employer would need to contribute.

The minimum compulsory contribution will initially be two per cent of qualifying earnings (with at least one per cent from the employer), rising to five per cent (with at least two per cent from the employer) in October 2016, and finally eight per cent (with at least three per cent from the employer) in October 2017. There are three alternative ways of calculating the minimum contribution for schemes using different definitions of pensionable pay. If basic pay is used, the minimum contribution will be nine per cent (with at least four per cent from the employer), if total pay is used at least seven per cent must be paid (with at least three per cent from the employer) and if pensionable pay is at least 85% of total pay, at least eight per cent (with three per cent from the employer).

What happens if we have an open defined benefits pension scheme?

Employers offering defined benefit schemes to new staff must comply by October 2016, although employees may opt into the scheme before this date. Should the scheme close to new staff between the staging date and October 2016, a backdated contribution may be required.

Defined benefit schemes contracted out of the State Second Pension will automatically qualify to be used for auto enrolment. Other non-contracted out schemes must provide an accrual rate of at least 1/120 of the average of the last three years qualifying earnings for each year of pensionable service up to 40 years.

How can Grant Thornton help?

If you would like to find out how Grant Thornton can help you with these issues, please contact:

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Which employers will be most affected?

Employers with staff on short-term or seasonal contracts or employers with a high level of staff turnover will bear an additional administrative burden as careful monitoring is needed to ensure individuals are auto enrolled on time. Employers with no existing pension scheme or who have low, or no take up on an existing scheme will have the greatest increase in cost.

Even if you currently employ people who, by virtue of earnings or age, do not need to be auto enrolled, you still need to be aware of these changes. Some employees may still have the right to be placed into a pension scheme on request and care is also needed regarding future recruitment plans.

Logistical issues with auto enrolment

Although employers will not need to enter employees into a pension plan until they have completed three months' service, it is likely that employees who choose to opt out may automatically make contributions before their election is processed; which will lead to overpayments and refunds.

Every three years employers will need to automatically enrol those who have opted out, at which time the employee can opt out again.

Early preparation is essential

Although the deadlines for compliance with this regime are some way ahead, it is essential to establish how far your current arrangements are compliant with auto enrolment. All employers will be affected, from a family employing a nanny to large multinational conglomerates, and will need to take some action on this issue to ensure that they are ready to meet their auto enrolment deadlines.

Implementing changes to existing pension and benefit schemes could carry significant costs. With some advance planning it may be possible to mitigate some of the costs and reduce the disruption to your business. Identifying who needs to be included and the likely cost is an important first stage.

By making an early start you will also be able to consider how to present these changes to pension arrangements as a positive change to your employees' incentive package.