



Auto Enrolment

With the introduction of ‘auto enrolment’ from October 2012, UK companies are now compelled to offer their employees a pension. They will need to have suitable pension provision in place into which employees will automatically be enrolled. This could be through an existing or new pension scheme, or through the Government’s scheme - the National Employment Savings Trust (NEST).

Auto Enrolment:

There are around 1,300,000 employers in the UK, and it is estimated that 270,000 of them already have a scheme that will satisfy the new minimum criteria, whilst 280,000 will have to improve their schemes to obtain certification, and 750,000 have no scheme at all.

What is changing?

To encourage people to save for retirement the Government is introducing new rules requiring employers to provide their employees with access to a workplace pension scheme from October 2012.

All employers will need to comply, but the new duties will be introduced over 5 years - depending on the size of the business – with large employers being required to comply first, from October 2012, and with medium and smaller employers following at a later date, up until 1 April 2017. There is no exemption for small employers.





Auto Enrolment

Who needs to be enrolled?

All eligible employees not currently enrolled in a pension arrangement will need to be enrolled.

Employers will have to automatically enrol employees aged between 22 and the state pension age and earning more than the personal allowance threshold (£8,105 for 2012/13 and £9,400 for 2013/14).

Employees aged (i) between 16 and 21, and between the state pension age and 74, and earning more than the personal allowance, and (ii) between 16 and 74 and earning less than the personal allowance but more than the 'lower earnings limit' (£5,564 for 2012/13), do not have to be auto-enrolled, but can opt in.

While employees aged between 16 and 74 and earning less than the lower earnings limit can ask to be included at their employer's discretion.

What contributions must be made?

Employers will be required to deduct contributions from their employees, and must also pay their own contributions to a qualifying pension scheme for the employees.

Employer contributions will start at a minimum of 1% of 'qualifying earnings' (which is the band of earnings between the lower and upper earnings limits, being from £5,564 up to £42,475 for 2012/13) and will rise to 2% in October 2017 and to 3% from October 2018.

Employees will be required to contribute a minimum of 1% of qualifying earnings, rising to 3% in October 2017 and to 5% from October 2018.

The employee's contributions will be made net of basic rate income tax relief of 20%.

There will also be freedom to choose how much more, within the annual contribution limit, employers and their workers pay and the way these contributions are calculated.

Can employees opt out?

An employee, having been automatically enrolled, but who doesn't want to save for their retirement, can opt out. But they have to be auto-enrolled again after 3 years if still an employee.

Employees with enhanced or fixed protection who are automatically enrolled by their employer will need to opt out in order to preserve their protected status. An employee has the right to opt out within a month of being automatically enrolled by their employer.

What is NEST?

NEST is simply the Government's pension scheme intended to facilitate the auto enrolment process. It is not compulsory, and can be used to meet the minimum legal requirements or to offer more – it can complement existing workplace pension schemes.

When is my Staging Date?

The date on which each employer must implement auto enrolment is known as their 'staging date'. The earliest staging date for small employers with less than 30 employees on the payroll (as at 1 April 2012 – the 'determining date') is 1 June 2015.

The Pensions Regulator will write to all employers around 12 months before their staging date so that they know when to automatically enrol their eligible jobholders. There will also be a further reminder to prepare for auto-enrolment obligations 3 months before the staging date.

It is crucial that employers give proper consideration to the impact of these changes well in advance of their staging date. MHA member firms can help you prepare for launch, including assistance with financial projections and management of human resources and compliance issues.

Contact

For further information, please contact your local MHA member firm, or email: info@mha-uk.co.uk.
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