Auto-Enrolment:
Employers questions answered

Welcome
Where you see contents, email addresses or web addresses these are all interactive, so click on the links to navigate around.
There are also some handy buttons, available throughout, allowing you to return to this page, move forward or back, and zoom in and zoom out. When you are ready to exit simply press escape.

Online • Pensions • Benefits • Reward • Education
No matter what terminology employers are hearing, all the activities and legislative changes have a common purpose; introducing pension reforms to encourage an increased level of savings, establishing greater private pensions income that will supplement National State Pensions.

This conclusion was reached after much national debate and an independent commission report, resulted in the subsequent Pensions Act 2008 and with it the obligations that will be enforced on all employers.

From 2012 onward it is the responsibility of each employer to implement the regulations set out in the Pensions Act 2008, ensuring they meet all obligations for each employee. Many companies are at different stages of preparation and readiness to address the complexities of launching auto-enrolment across their organisations. There have been many questions raised and many answers given, however, what are the key issues employers need to address, and no matter what solution an organisation chooses, what needs to be achieved?

Pensions reform
The industry is talking about pensions reform, workplace savings, auto-enrolment and the Pensions Act 2008.

Contents

Employer’s questions answered

5 An overview
7 Who qualifies?
11 What is required?
15 Pensions Regulator
17 Employer obligation timings
19 What are my qualifying scheme options?
25 How can we help?
27 What makes us different?
28 About Benefex
29 Are you ready for auto-enrolment?
An overview

What are the key things that need to be considered when tackling auto-enrolment?

There are several sources offering advice around auto-enrolment; employers may choose to approach a pension company, payroll company or their reward and benefits provider for this purpose. No matter what direction an organisation turns, there are some key obligations to be aware of and consider in order to achieve a successful roll out of an auto-enrolment solution.

All eligible employees must be auto-enrolled by the appropriate staging date. The timing of each organisation’s implementation of auto-enrolment is based on their size. From the largest (October 2012) to the smallest (February 2018) all employers are affected.

The first key employee criteria is age; employees who are aged between 22 and State Pension Age are eligible (subject to earnings).

Employers must automatically enrol all employees who are deemed eligible into a qualifying pension scheme. Those who aren’t eligible will also have the opportunity to join.

Employers must NOT encourage, induce or incentivise any employee to opt-out of auto-enrolment.

A qualifying pension scheme must be offered to eligible employees. If an employee is eligible they are not required to do anything as they will be automatically enrolled.

The second key employee criteria is earnings; employees who earn over £8,105 (2012) are eligible to be auto-enrolled (subject to age).
Who qualifies?

Auto-enrolment applies to most, but not all employees, therefore employers will need to assess which ‘Worker Category’ employees fall into, and take relevant action.

Auto-enrolment is required for anyone who ordinarily works in the UK, under a UK contract; aged between 22 and State Pension Age, earning over £8,105 (2012).

<table>
<thead>
<tr>
<th>Age (inclusive) Earnings</th>
<th>16-21</th>
<th>22-SPA*</th>
<th>SPA*-74</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under lower earnings threshold (£5,564*)</td>
<td>Entitled Worker (EW)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between £5,564* and £8,105*</td>
<td>Non-Eligible Job Holder (NEJH)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over earnings trigger for automatic enrolment (£8,105*)</td>
<td>Non-Eligible Job Holder (NEJH)</td>
<td>Eligible Job Holder (EJH)</td>
<td>Non-Eligible Job Holder (NEJH)</td>
</tr>
</tbody>
</table>

* State Pension Age  
# DWP 2011/12 limits

Entitled Worker (EW)  
Can choose to join the pension scheme but does not need to receive employer contributions

Non-Eligible Job Holder (NEJH)  
Can choose to join and receive employer contributions but does not need to be auto-enrolled

Eligible Job Holder (EJH)  
Needs to be automatically enrolled into a qualifying pension scheme.
It is essential to monitor employees who do not currently need to be auto-enrolled, ensuring that when they become eligible the regulations are complied with e.g. those who are soon to turn 22, or employees who receive a salary increase.

**Who needs to be auto-enrolled? – age**

- Employees under 22 but over 16: Can elect to join a scheme but do not need to be auto-enrolled
- Employees over State Pension Age but under 75: Can elect to join a scheme but do not need to be auto-enrolled

**Who needs to be auto-enrolled? – earnings**

- Over £8,105: Employers need to auto-enrol all employees (subject to age)

It is essential to monitor employees who do not currently need to be auto-enrolled, ensuring that when they become eligible the regulations are complied with e.g. those who are soon to turn 22, or employees who receive a salary increase.

**Who is exempt from being auto-enrolled?**

- Workers under the age of 22
- Those over State Pension Age
- Some on short term contracts
- People earning less than £8,105 per annum*
- Employees that work (or ordinarily work) outside of the UK
- Those already in a qualifying scheme

* Earning limits will be set and published annually by the Depart for Work and Pensions (DWP).
What is required?

The qualifying earnings are between £5,564 and £42,475; this includes bonuses, overtime, statutory maternity, paternity, adoption pay and other allowances.*

The lower limit will increase each year in line with the threshold at which National Insurance is paid. The upper limit will increase yearly in line with average earnings.**

*Full list of allowances can be checked on the Pensions Regulator website www.thepensionsregulator.gov.uk

** These limits will be set and published annually by the Department for Work and Pensions (DWP). This is also subject to further consultation.
Are there minimum contributions?

The new rules require both a minimum total contribution and a minimum employer contribution. These are based on a percentage of qualifying earnings or pensionable pay for other qualifying schemes. For most defined contribution schemes the total contribution will start at 2% (total) at the staging date and increase to 8% (total) by 2018.

The minimum contributions start at 1% for the employee and are matched at 1% by the employer in year one. This will gradually increase the employee contribution, with a minimum 3% input from the employer and 1% from the Government as a tax rebate. The total can be made up by the employer, or a combination of both; tax relief will only apply if the employee contributes to the scheme. The minimum contribution level is just that, a minimum. Employers can choose to pay more into a scheme.

Minimum contributions

<table>
<thead>
<tr>
<th>Date</th>
<th>Employer pays a minimum of</th>
<th>Total</th>
<th>Employee potentially pays*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct 2012 to Sep 2016</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Oct 2017 to Sep 2018</td>
<td>2%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Oct 2018</td>
<td>3%</td>
<td>8%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Employee contribution is less basic tax relief of 20%

Opting out and re-enrolment

For most pension schemes employees will for the first time have the option to opt-out of a pension rather than opt-in. Workers will have a calendar month to opt-out of the scheme from the day they are auto-enrolled. If they chose to opt-out within the opt-out period, the payments made to date must be reimbursed. If an employee opts out after the opt-out period ends, refunds will be based on the employers pension scheme rules.

If an employee chooses to opt-out of the qualifying pension scheme, they will be automatically opted back in at the three year anniversary of the organisations staging date, however if an employee has joined within the last 12 months employers are not obliged to opt that employee back in. An employee can choose to re-join before the organisations re-enrolment date if they wish. Issuing of opt-out forms must be managed by a third party.

Employers must not recruit people on the basis that they will opt-out, incentivise people to opt-out or promote opting out in any way; employers will be answerable to the Pensions Regulator if found doing so.
What is the role of the Pensions Regulator?

The role of the Pensions Regulator is to educate, enable and enforce auto-enrolment. They can, and will, issue compliance notices, penalty notices and fines if employers break the rules.

Letters will be sent to employers in advance of their staging (live) date, informing companies of how they can find out more about their duties, when they apply, including how to comply with the regulations.

These letters intend to provide each employer with time to prepare for the changes ahead, therefore they will be distributed a minimum of 12 months before an employer's staging date and another notification will be sent 3 months in advance.

Employers will have to register with the Pensions Regulator within two months of the staging date and provide updates every three years to remain compliant. Records will have to be kept for six years including all notices, opt-outs and information distributed.

Non-compliance penalties

Penalties can be issued for:
- False or misleading information
- Failing to make contributions
- Failing to enrol eligible employees
- Inducing employees to opt-out
- Recruiting staff on the basis that they will opt-out

For more information on the Pensions Regulator visit: www.thepensionsregulator.gov.uk
What are the timings of employer obligations?

The reforms will be introduced over a period of six years, starting from October 2012. The timescale should give employers time to prepare their systems and communication with employees.

There will be various implementation stages of the new auto-enrolment process that will relate to businesses dependant on the number of employees on their payroll. If there are less than 50 employees then the staging date will be decided from the employers PAYE reference number. For group companies, the largest PAYE reference will provide the staging date.

Processes start in October 2012 for large organisations and will level down to the small businesses over the following six years. Employers can check their exact staging date by visiting: www.dwp.gov.uk/docs/staging-dates-by-employer.pdf
What are my qualifying scheme options?

Employers can choose a pension scheme to suit their requirements however it is essential that a qualifying workplace pension scheme* is in place that meets the requirements, or a scheme that can be adapted to meet the minimum criteria. Alternatively NEST may be considered as an option to meet the obligations.

* A qualifying scheme is one which satisfies the minimum qualifying contributions (which can be variable depending on the definition of pensionable pay)

NEST

NEST (National Employment Savings Trust) is an auto-enrolment pension sponsored by the government and aimed at those without a qualifying pensions scheme at work. NEST can be used by anyone who wishes to use it; however contributions into NEST will be capped. It is designed to be low cost and will be regulated by the Pensions Regulator.

Key NEST facts

• It is an auto-enrolment pension aimed at those without a quality pensions scheme at work
• Can be used by anyone who wishes to use it
• Contributions are on earnings between £5,564 and £42,475
• Contributions are capped at £4,200 (2011/12 limit) per annum (with the ability for a top up into an alternative pension scheme)
• Designed to be low cost
• Has a 0.3% annual management charge (an additional 1.5% contribution charge will be taken until set up costs are recouped)
• Available from 2012
• It is a portable scheme
• Will be regulated by the Pensions Regulator
Defined Contribution schemes (DC)

Some of the key criteria:

- Has a minimum employer contribution of 3% (by Feb 2018)
- It must auto-enrol Eligible Job Holders based on age and earnings
- It must allow employees to opt-out with a refund of contributions made within stated time limits
- Individuals who have opted out have the right to opt back into a qualifying scheme if they wish and, even if they do not choose to do so, the employer must re-enrol them 3 years after the organisations staging date
- Employees must not be required to make any choices or provide any information in relation to joining or remaining a member
- It must have a default investment fund
- Employees must not be “induced” to opt-out

<table>
<thead>
<tr>
<th>Options</th>
<th>Employer pays</th>
<th>Total required</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>2</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>3</td>
<td>4%</td>
<td>9%</td>
</tr>
</tbody>
</table>

All pay across the scheme is pensionable

At least 85% of the pay across the scheme is pensionable

Alternative option if conditions 1 or 2 are not met

Employees must not be required to make any choices or provide any information in relation to joining or remaining a member

It must have a default investment fund

Employees must not be “induced” to opt-out
Defined Benefit schemes (DB)

There are two ways for DB schemes to qualify:

1. Schemes which are contracted out of the second state pension and have valid certificate qualify.

2. Not contracted out, but are based on accrual of 1/120th. The scheme actuary must certify that the scheme meets Test Scheme Standards.

Whatever the chosen scheme it is the employer’s responsibility to ensure that it is a quality workplace pension scheme. In addition employers must provide staff with factual information, including confirmation they will be enrolled into a pensions scheme, what the scheme is and the contributions they will have to pay.
How can we help?

Benefex have created an auto-enrolment service, called Enroller™. Core functionality within the RewardHub™ has been designed to cater for the employer duties created by auto-enrolment and the Pensions Act 2008.

Benefex will support you through the following steps:

**Design**
Our in-house experts will work with you, offering the best market experience and systems, to design a solution that meets the evolving needs of your business.

**Implement and execute**
A fully managed implementation of the agreed solution, delivered to your exact requirements, on time and to a fixed budget.

**Assessment**
Ensuring that each employee is properly assessed therefore establishing which Worker Category they will fall into and determining the further action points.

**Information and communication**
Providing the correct information to each employee guaranteeing that you meet your obligations; communicating employee choices in a written, direct and meaningful manner.

**Enrolment and managing opt-out and opt-in**
Working alongside your business operationally, removing the burden from your own resources by managing the entire end to end process.

**System**
RewardHub™, one of the UK’s most successful online rewards, benefits and pensions portal, will form the centre of the Enroller™ solution; processing large volumes of employees, maintaining compliance, offering extensive management reporting, while providing simple and easy access to every employee.

**Educate**
Coupled with personalised communications, employees will have access to a comprehensive Financial Education Suite, designed to raise awareness and understanding about the fundamentals of pensions and auto-enrolment.

**Support: administration and helpdesk**
Our world class Support Centre will manage all of the administration around your scheme and every query from employees via a branded helpdesk. We will remove the entire burden of managing auto-enrolment including opt-outs, new joiners, updating pension providers and managing any future changes.

**Compliance Guarantee**
The Compliance Guarantee that comes built into Enroller™ has been designed to ensure that your scheme remains compliant throughout. As part of this service we will manage all of the data, reporting and interactions with The Pension Regulator.
What makes us different?

We believe that we provide the best solution and service available in the market, this includes:

- Market leading innovation
- Everything under one roof
- Built for you
- Highest SLA’s
- Benefex Compliance Guarantee
- Maximise efficiency and savings

About Benefex

Benefex are one of the most successful online reward and benefits providers in the UK. We specialise in creating and delivering strategic employee benefit solutions.

Through our in-house team of experts we design, implement, communicate, administer and support a wide range of schemes. This includes Total Reward, Flexible Benefits, Financial Education, Broking and our new Auto-Enrolment solution – Enroller™, which provides an out-sourced, complete end to end auto-enrolment service.

Our very own fully integrated reward and benefit portal is central to our solutions, providing employees with an intuitive platform for all of their reward and benefit needs.

Whatever stage you are at, and whatever strategy you are working to, we can help.

Details in this guide are correct at the time of going to print (March 2012). The above is provided as commentary only and should not be construed as advice.

Are you ready for auto-enrolment?
Call the team to find out on 0845 129 8636 or email autoenrolment@benefex.co.uk
Are you ready for auto-enrolment?

Our handy check list

- Know your staging date
- Complete an auto-enrolment readiness review
- Choose which scheme you will use
- Do you want to start early or wait until your staging date?
- Delivery responsibility
- Plan your communication strategy for employees
- Review your operational structure
- Collaborating with business stakeholders

Know your staging date

Visit www.dwp.gov.uk/docs/staging-dates-by-employer.pdf to check your date. Some employers will have until February 2018 but you will still need to plan and budget for the changes. Employers who are part of a group should be aware that the whole group will be staged together and this could mean an earlier staging date.

Auto-enrolment readiness review

Employers should complete an auto-enrolment readiness review, looking at financial assessment, identifying their auto-enrolment population, reviewing scheme structure and operational readiness.

Choose which scheme you will use

This could be an existing scheme which caters for auto-enrolment or another qualifying scheme (such as NEST). Weigh up the positives and negatives for both options whilst taking into consideration your companies circumstances. Some employers may decide on a combination.

Do you want to start early or wait until your staging date?

You may wish to consider starting your auto-enrolment journey early; to enable this to be recognised as your new start date, you will need to register this change with the Pensions Regulator.

Delivery responsibility

Mapping out who takes responsibility for what; how the administration will be handled, who is on hand to provide employee support and how will the overall process and employee experience be managed.

Plan your communication strategy for employees

Part of the auto-enrolment requirement is to inform all employees of the pension scheme available. How will you communicate this to your staff? You will need to consider how to engage your entire workforce, understanding the demographic of employees is essential.

Review your operational structure

How ready is your infrastructure to support your obligations - administration, processing and compliance? You may need to upgrade or invest in new technology to simplify the process.

Collaborating with business stakeholders

Every organisation will have a different approach - be clear on timings and understand who the stakeholders are. With multiple business areas involved, co-operation and collaboration will be essential to success.
Hope to speak to you soon