Pensions automatic enrolment:

learning from those who’ve gone before

Has the Pensions Regulator written to you?
Will your company be automatically enrolled?
Are your employees asking about the “We’re all in” adverts?

The auto-enrolment programme, requiring employers to automatically enrol their employees into a workplace pension scheme and make contributions to that pension, is being phased in by size of business to be completed by 1st February 2018. It’s a highly complex piece of legislation and already a number of larger employers have been fined for non-compliance.

The implementation deadlines are now approaching for employers of less than 50 and for new employers created since April 2012. Happily these employers don’t need to rediscover the wheel, they can benefit from the practical experiences of those who have already auto-enrolled. Here’s a summary of their top tips:

1. Use the sources of help available

Hear it from the horse’s mouth and make The Pensions Regulator’s website your first port of call. It gives a clear overview, plus detail about what you will need to do for each task, so you can go through it a step at a time. http://www.thepensionsregulator.gov.uk/automatic-enrolment.aspx.

As The Pensions Regulator advises employers on its website:

It is called automatic enrolment because it is automatic for your staff – they don’t have to do anything to be enrolled into your pension scheme, but it is not automatic for you. You need to take steps to make sure your eligible staff are enrolled into a pension scheme. Even if you already pay contributions into a pension scheme for your staff, you still need to check if it is suitable for automatic enrolment.
If your organisation doesn’t already have a pensions advisor, ask for recommendations. They will be a valuable source of advice for the whole project but of course there is a cost involved.

If your payroll is outsourced to a bureau, find out what auto-enrolment support they offer and which pension providers they work with. Using a pension provider that is already integrated with your payroll provider will avoid hassle and expense.

Take advantage of free seminars at accountancy practices and business networking groups being run locally: it’s highly complex and you’ll absorb new information each time you hear specialists explaining how auto-enrolment works.

2. **Start planning well in advance**

Your company will receive a letter from the Pensions Regulator giving your staging date (the go-live day for your business). Although it will seem a long time in advance, the Regulator recommends starting the planning process 12 months before this date. Its research has shown that most employers who have completed the process so far have regretted not allowing more time. Employers have described this stage as like opening Pandora’s box - more tasks for you will come flying out than you could ever imagine! You’ll need to check the timing for them all carefully and put an action plan in place.

As well as the staging date, another important deadline is 5 months later when employers must have completed a 'declaration of compliance' notifying The Pensions Regulator that they have put the new rules in place. The Pensions Regulator recommends that employers begin gathering the information they will need to do this well in advance of their deadline. A significant number of improvement notices and fines are for employers who have missed this deadline. There is no escape! - the Pensions Regulator will know who you are by your PAYE code.

Employers will have to automatically enrol workers into a pension scheme which meets certain minimum requirements, and will be legally obliged to make contributions towards the pensions of workers who do not opt out of the scheme.

3. **Check your workforce: who has to be automatically enrolled?**

Before you or your pension advisor can shop around for pension scheme providers and before you can cost the exercise, you will need to assemble data about your workforce so that the best solution can be identified.

Existing workers and new joiners only have to be enrolled if they are aged between 22 and state pension age and if their earnings are £10,000 or more a year (£192 per week). You will need a system to identify who they are, their ages and their annual earnings. Auto-enrolment is very difficult to implement for employers with workers who aren’t on regular hours or are paid weekly, and fundamental policy decisions may be required early on to form the basis for the process, e.g. this may be the point to plan in a contractual change from weekly to monthly pay, otherwise your administrative costs will be higher.

There is an option to postpone auto-enrolment for up to 3 months, and if this is the way you decide to structure your scheme, it will save you from having to automatically enrol workers with you for less than 3 months.

Auto-enrolment applies to “workers”, a broader group than employees. The definition is wide enough to include some casuals, contractors, agency (depending on who pays them) and offshore workers. You may need to take advice from the Pensions Regulator about who to include as a worker.
If workers to be included are not your employees, you will need to collect in their basic data such as start date, birthdate, NI number and address to enable them to be automatically enrolled.

4. **Assess costs and decide on employer contribution levels**

Identify the financial impact of the level of employer contributions that your company will make before deciding between the options.

Until September 2017, the minimum employer contributions are 1% of each employee’s qualifying earnings, then increasing to 2% and from October 2018, to 3%. A proportion of workers will opt out of the scheme - the average is 9% - and you can allow for this in your costing. However to offset this, some workers who do not fall within the age or earnings categories for auto-enrolment may wish to join and you will have to allow them to.

The Pensions Regulator has an online contributions calculator that you can use to work out your minimum pension contributions for individual members of staff.

You may decide to have a ‘minimum compliance’ approach, i.e. to pay statutory minimum contributions only. If you already have a workplace pension scheme with more generous employer contributions than the statutory minimum, you can continue but this will mean that your overall costs are higher as more people join on auto-enrolment. Choose whether to set up a harmonised system matching arrangements for those who newly qualify for automatic enrolment with those of pre-existing members, or whether to adopt an alternative, typically less generous, scheme for new joiners. While obviously cheaper such a two-tier system may be perceived as unfair by the workforce.

Another policy decision is to define the basis of the employee’s qualifying earnings that the percentage contributions are based on. Should you opt to base it on qualifying earnings, which includes fixed pay, variable pay and statutory payments, or go for the administratively simpler, but potentially more expensive, option of basing contributions just on salary?

To help afford the onset of automatic enrolment contributions you may need to consider freezing or moderating pay rises, reducing other elements of pay, and increasing prices.

There may also be one-off costs to consider, such as setting up your scheme, getting payroll software to manage automatic enrolment and any independent advice you might decide to take.

5. **Sort out a compliant pension scheme**

If your company has a workplace pension scheme in place already, check with the provider that it meets all requirements to be a qualifying scheme for auto-enrolment purposes. Don’t assume anything: you will need to confirm that they are willing to extend it on the same terms to new workers entering under auto-enrolment. Some pension providers may not be willing to offer schemes to workers who are likely to prove less profitable.

If you don’t have a workplace pension scheme already or your existing one doesn’t qualify or can’t be extended, you will need to source a new scheme - well in advance. The government’s scheme NEST is the lowest cost option but there are others available. It’s hard for any employer to chose a pension scheme without using a pensions specialist: they will know the current market for pensions providers, advise you on the best solution for your workforce and guide you through the decisions you will need to make in selecting a scheme, e.g. whether it should be portable.

Once you’ve decided on the scheme, the provider should have a complete suite of well-developed practical advice, project plans and communication content that you can adapt.
6. **Make sure your payroll and pensions software are up to the job**

In the last 6 months before your staging date, with all the policy decisions in place, turn your attention to the best software solution.

When you start paying employer contributions after the staging date, they will be calculated and deducted via your payroll process, and employee contributions will need to be deducted from every payroll too. Payroll software can simplify the process of assessing your staff and providing information about them to your pension provider. If you don’t already use payroll software, now is the time - it’s impractical to embark on auto-enrolment, with all its demands, without a software system in place.

If you already use payroll software or a bureau, check that it’s designed to carry out all the automatic enrolment tasks supporting compliance, e.g. integration with any employee database, automatically enrolling staff as they become eligible and production of standard letters. If it doesn’t, consider updating your software. Make sure that your payroll software/process will work compatibly with the pension scheme you choose so that data can be transferred between the two.

The payroll system must be able to calculate pension contributions quickly enough every month. There are strict deadlines for you to send mandatory standard letters to employees, and good software will generate and store these automatically. It will also automatically refund contributions when employees opt out within the first 3 months.

Around 200,000 small and micro employers use HMRC’s Basic PAYE Tool in place of payroll software. Unfortunately it doesn’t provide the right functionality to allow them to meet their auto-enrolment duties. Currently The Pensions Regulator is consulting on whether to provide a basic automatic enrolment assessment tool for smaller employers using BPT.

7. **Communicate with your workforce**

Your employees will have heard about auto-enrolment in The Press – such as the “We’re all in” TV campaign – and you will need to let them know when your organisation’s go-live date is. About 3 months before the staging date, start communicating more information about your arrangements.

The most common query from employees is about opting out as they don’t want to contribute to a pension scheme. You will need to explain that they can only do so after they have first been enrolled, and that they will need to explicitly opt out after that.

Communicate with your workforce in writing; this can be by email. If you don’t have it already, collect the e-mail addresses for all staff as issuing communications about auto-enrolment via email is cheaper and more efficient than post.

There is a lot of information that you need to give to your workers - and prove that you have done so. The Pensions Regulator has templates to help employers comply (http://www.thepensionsregulator.gov.uk/employers/letter-templates-for-employers.aspx).

Make sure there is nothing in your process or communication that may be seen as encouraging employees to opt-out – you can be fined if there is.

8. **Cleanse and check your data**

Inaccurate or incomplete worker and payroll data is one of the biggest stumbling blocks in the process.

Before implementation, audit the accuracy of your workforce data (for example individual age and earnings data): you may need to adjustment workforce information systems and this will need to be done well in advance.
There will need to be watertight process each payroll run to ensure that the payroll data required is complete, closed off to changes by a deadline far enough in advance and entirely up to date. Establish a monthly checking routine to ensure all the data is set up on the payroll so it is ready by the start of the payroll month and review the reports to make sure everyone’s pay is correct.

9. Keep records to prove you’ve followed the process

Maintain a clear and accurate record of your ongoing auto-enrolment compliance: ideally your software will do this automatically. The Pensions Regulator can impose escalating penalties for non-compliance with automatic enrolment requirements.

The Human Resource will be pleased to advise businesses on pensions auto-enrolment planning, changing terms of employment contracts and internal communications. We can provide you with FAQs for your employees.

We can also support you as a one-stop-shop by referring you to our trusted partners in payroll, employee information systems and pensions.