Chiene+Tait

CHARTERED ACCOUNTANTS

Comment on...

Pensions Auto Enrolment

Automatic enrolment for eligible workers into a qualifying pension scheme began for employers on 1 October 2012. This forms part one of the measures introduced in the Pensions Act 2008 which are aimed at encouraging greater private saving. The key elements of the workplace pension reforms are:

- New legal duties that require employers to automatically enrol their eligible workers or 'jobholders' into a qualifying pension scheme. The new requirements were 'staged in' (see below) depending on the size of the employer and where the employer chooses to provide a money purchase arrangement, the minimum contribution requirements will be 'phased in' (see below) to help both employers and individuals adjust to the additional costs gradually.

- A compliance regime enforced by The Pensions Regulator to ensure employers and others meet their new duties and workers obtain their new rights.

Jobholders have a one month 'opt-out period' after they've been automatically enrolled. However, if any jobholders have opted out, their employer will have to automatically re-enrol them after three years, providing that they are still working for the same employer. The only employees exempt from automatic enrolment are those under 22, older than state pension age, or earning less than £10,000 a year in 2017/2018.

Staging

Pension duties began from October 2012 for employers established before April 2012, starting with the largest to medium-sized employers staging first (up to 1 April 2015), followed by small and micro employers (1 June 2015 - 1 April 2017).

All new employers from April 2012 to September 2017 staged between April 2017 and February 2018, and any PAYE references opened from October 2017 will stage immediately. Subject to certain conditions, employers are able to automatically enrol their employees in advance of their staging date.

Phasing – Defined Contribution (DC) schemes

The minimum contribution levels for DC schemes are not being introduced in full at the start. Instead they are being 'ramped-up'. This is referred to as 'phasing'.

The obligations will be built up over three phases, with the final phase being when contributions have reached the final minimum levels:

Phase (aligned with Tax Year End)	Duration	Employer minimum contribution	Total minimum contribution
1	Staging date to 5 April 2018	1%	2%
2	6 April 2018 to 5 April 2019	2%	5%
3	6 April 2019 onwards	3%	8%

Jobholders will get tax relief on their contributions. Employers could choose to pay the full 8% contribution or choose a combination of employer or employee contributions subject to the minimum employer contributions.

Contributions

There are four quality tests that can be used to determine the minimum level of employee and employer contributions used. It is up to the employer to decide on which basis contributions will be collected.

Quality tests	Pensionable pay definition	Date	Minimum Employer Contribution	Minimum Total Contribution
Standard	Qualifying Earnings – earnings between £5,876-£43,000 (2017/18)	To 5 April 2018	1%	2%
		6 April 2018 – 5 April 2019	2%	5%
		6 April 2019 onwards	3%	8%
Tier1	Basic pay	To 5 April 2018	2%	3%
		6 April 2018 – 5 April 2019	3%	6%
		6 April 2019 onwards	4%	9%
Tier 2	At least 85% of total earnings	To 5 April 2018	1%	2%
		6 April 2018 – 5 April 2019	2%	5%
		6 April 2019 onwards	3%	8%
Tier 3	Total earnings	To 5 April 2018	1%	2%
		6 April 2018 – 5 April 2019	2%	5%
		6 April 2019 onwards	3%	7%

Postponement

Employers can opt to postpone auto-enrolment of employees into their pension scheme by up to 3 months. Postponement can be used from the employer's staging date for all employees, or from each individual's start date e.g. to stop employees being auto-enrolled during a probationary period of their employment. Regardless of the postponement used however, employees have the right to opt into the pension scheme before their postponement period has ended.

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