



“Breakthrough Construction 2014”

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JESSICA MCGOWAN

“How To Win Friends & Influence People”

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Employers' guide to Automatic Enrolment

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Introduction

The UK has been heading towards a pension crisis for many years:

- People are living longer
- The population is changing; there are currently four workers for every person who has retired, by 2050 this will drop to just two per pensioner
- Final salary pensions are closing at a rapid rate
- Only 1 in 3 private sector workers pay into a pension
- 7 million people are not saving enough for retirement

It's clear something needs to be done and the Government's answer is Automatic Enrolment.

This will see all employers, from those with just one member of staff, to large FTSE 100 conglomerates, being forced to start a pension for their employees, automatically enrol workers and make contributions.

Sounds easy doesn't it?

Don't be fooled, the steps an employer needs to take to be fully compliant with the Automatic Enrolment regulations are many, varied and far from easy to meet. To make it even harder, employers must comply by a set date, failure to do so, or not complying correctly, could lead to heavy fines.

We've put together this guide to help you understand more about your Automatic Enrolment obligations and some of the options you have to comply with the new rules.

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Summary of your duties as an employer

Your duties as an employer can be broken down into three key stages:

- **Now**
- **Between now and your Staging Date, the date by when you must comply**
- **Post Staging Date**

The legal duties you have as an employer are as follows:

- ✓ Automatically Enrol all Eligible Jobholders
- ✓ Allow Non Eligible Jobholders to opt in and Entitled Workers to join
- ✓ Communicate to your staff in a timely manner providing appropriate information
- ✓ Facilitate opt outs and promptly refund contributions
- ✓ Re-enrol all Eligible Jobholders every three years
- ✓ Register your compliance with the Pensions Regulator
- ✓ Keep adequate records
- ✓ Maintain contributions

Jargon Buster

Learn more about these terms in the Jargon Buster at the back of this guide

There are also employee Safeguards:

- ✗ An employer must not induce or incentivise their staff to leave or opt-out of the scheme
- ✗ An employer must not indicate to a potential jobholder that their decision to opt out will affect the outcome of the recruitment process

8 Steps to Automatic Enrolment compliance

Complying with the Automatic Enrolment rules will take careful planning on behalf of employers and their advisers. It will also take a considerable amount of time. The Pensions Regulator suggests employers should start to plan 18 months before their staging date, whilst the Centre for Business & Economic Research (CEBR) has said it will take businesses a total of 103 working days to comply.

To make life easier, we've broken it down into eight steps.

Step 1: Know your staging date

This is the date by which you must have met your Automatic Enrolment obligations.

Your staging date is based on the size of your largest PAYE Scheme as at 1st April 2012, the table at the end of this guide gives a guide to when your staging date is. However this is only an estimate, the only way to accurately get your exact staging date is to enter your PAYE reference number into the calculator on The Pensions Regulator's website; if you have more than one PAYE reference you will need to enter them all and your Staging Date will be the earliest of the deadlines you are given.

Staging date calculator

Visit the link below to use The Pension Regulator's calculator to find out your staging date

<http://www.thepensionregulator.gov.uk/employers/tools/staging-date.aspx>

See the back of this guide for staging dates.

Step 2: Examine and categorise your workforce

At your staging date you will need to establish which of your staff are affected by Automatic Enrolment and will be classed as Workers.

The term 'Worker' is key to Automatic Enrolment compliance and is perhaps not as straightforward as it sounds. It is defined as an individual who works under a contract of employment or other contract by which that individual undertakes to perform services personally. This means people who work for you on a self-employed or contracting basis, who do not appear on your PAYE Scheme, are in fact Workers and therefore will need to be Automatically Enrolled.

Broadly speaking employers will have duties for:

- Workers who are aged 16 – 74
- Workers in the UK
- Workers who are full or part-time

Once it has been established that an individual is a Worker, they then need to be categorised as either a:

- **Eligible Jobholder** who employers must automatically enrol. These people can then opt-out, although they will then need to be re-enrolled every three years
- **Non-Eligible Jobholder** who can opt in to be automatically enrolled
- **Entitled worker** who can request to join 'a pension scheme', which can be a different scheme to that used for Automatic Enrolment

The exact category a worker falls into is dependent upon their Qualifying Earnings and age, as the following table shows:

Qualifying Earnings	Age Range		
	16 – 21	22 – State Pension Age	State Pension Age
Under £5,772 per year or weekly / monthly equivalent)	Entitled Worker		
Between £5,772 and £10,000 per year (or weekly / monthly equivalent)	Non-Eligible Jobholder		
More than £10,000 per year (or weekly / monthly equivalent)	Non-Eligible Jobholder	Eligible Jobholder	Non-Eligible Jobholder

All Eligible Jobholders will need to be automatically enrolled into a suitable scheme, unless they are already a member of a Qualifying Scheme.

Step 3: Review existing pensions, are they a Qualifying Scheme?

If you run an existing pension scheme you will need to take further additional steps, which are detailed later in this guide.

Assuming you don't already run an existing pension scheme you need to move to Step 4.

Step 4: Review your payroll, IT and communication systems

To meet your Automatic Enrolment obligations efficiently and therefore save time as well as money, you will need to have good quality data and communicate well with your employees.

Employers should be thinking about:

- How will you categorise your workers into Entitled Worker, Eligible Jobholder, Non-Eligible Jobholder? Will you use your existing payroll software? Will your accountant do it for you? If so how much will it cost?
- How will you automate your communications with your staff?
- Will your existing payroll systems need an upgrade? Will you need to invest in additional systems?
- Do you have all the data your chosen pension provider will need? Are there gaps in your data? How will these be filled?

Step 5: Communicate with your staff

There are statutory minimum levels of communication you must adopt with your staff, but some employers may wish to do more:

- How much do your staff know about Automatic Enrolment? Do you want them to have a greater understanding?
- Will you need a process of formal consultation? Or will a more informal strategy be adequate?
- How do you want to communicate the changes? Letter, email or workshop?

Step 6: Decide on a suitable scheme

Employers have a number of options here:

A new Group Personal Pension arrangement or GPP for short NEST (National Employment Savings Trust) the Government backed option One of a new breed of qualifying schemes such as the People's Pension

An employer needs to decide, or indeed take advice, as to which option is right for them and their workforce. Of course, an existing scheme could be used if it meets various criteria.

Step 7: Register with the Pensions Regulator

Once you have complied with the Automatic Enrolment legislation you will need to tell The Pensions Regulator.

This can be done online and must be done within four months of your staging date and every subsequent re-enrolment date.

Not doing so could leave you open to further action and a fine.

Step 8: Stay compliant

Registering your compliance with The Pensions Regulator isn't the end of your obligations; you need to stay compliant with the rules on an on-going basis. This means you will have to:

- Correctly calculate member and employer contributions for each pay period
- Deduct contributions from pay
- Pay member and employer contributions to the Qualifying Scheme
- Deal with members who opt-out and ensure any contributions are refunded correctly
- Assess your Workers periodically to ensure they are still correctly categorised
- Assess all new Workers who join your business
- Assess some Workers every pay period, for most businesses this will be monthly or weekly
- Re-enrol Workers every three years

Need help with Automatic Enrolment?



Contact our team of advisers today:

0115 933 8433

info@investmentsense.co.uk

- Deal with Workers who leave your business
- Communicate with Workers
- Deal with queries from your staff
- Interpret, assess and implement any changes to the regulations
- Communicate with your Qualifying Scheme

What contributions need to be made?

The contribution levels for both employers and employees start at relatively modest levels, but rise in three phases between your Staging Date and 2018.

Phase 1: Staging Date to October 2017

2% total contribution, including a minimum of 1% from the employer

Phase 2: October 2017 to October 2018

5% minimum contribution, including at least 2% from the employer

Phase 3: October 2018 onwards

8% minimum contribution, including at least 3% from the employer

What do our clients say?

“Sarah was excellent and skilfully guided me through the process providing explanations of the rules at each stage.”

“Excellent service. No hesitation in recommending Investment Sense to others.”

What happens if I don't comply?

The cost of non-compliance could potentially get very expensive.

The Pensions Regulator can be impose large fines, which come in three stages:

Stage 1: Warning

Employers who have not complied will receive a compliance / unpaid contribution notice

Stage 2: 'Wake up call'

Fixed penalty of £400

Stage 3: Persistent offender

These fines depend on the size of your business:

1 – 4 employees	£50 per day
5 – 49 employees	£500 per day
50 – 249 employees	£2,500 per day
250 – 499 employees	£5,000 per day
500+ employees	£10,000 per day

There are also fines, of between £1,000 and £5,000, for employers who incentivise or otherwise try to persuade employees to opt-out of Automatic Enrolment.

Can existing pension schemes be used?

You might already run an existing pension scheme. As part of your compliance process you should assess whether this scheme satisfies the Automatic Enrolment criteria and can therefore be classed as a Qualifying Scheme.

If it does you will be able to use this scheme to receive contributions for those workers who will be automatically enrolled. If your existing scheme cannot be classed as a Qualifying Scheme, you will have to automatically enrol all Eligible Jobholders into a scheme which does meet the minimum criteria.

What are the minimum criteria?

For employers who run Group Personal Pensions, the minimum criteria to be classed as a Qualifying Scheme and meet Automatic Enrolment criteria include:

- The scheme must be an Occupational or Personal Pension and registered in the UK
- The scheme must not require the Worker's consent to join
- The scheme must not require the Worker to provide any information or make any choices to join or remain a member, for example submit an application form or choose a type of fund to be invested in
- The scheme must allow a Worker to join it from their first day of employment
- You must pay at least the minimum contributions required under Automatic Enrolment rules based on qualifying earnings
- There must be nothing in the scheme rules which would act as a barrier to Automatic Enrolment

In addition, the Government is consulting on whether to place a cap on the maximum charges which Workers will pay to be a member of a Qualifying Scheme. Although this is only currently at consultation stage, a cap of 0.75% per annum has been suggested; if this were to be implemented, it would make it far harder for existing pensions to be classed as a Qualifying Scheme.

For employers who run Final Salary or Defined Benefit schemes, the criteria are likely to be more complex and they should contact the trustees of the scheme for advice.

What happens if it isn't a Qualifying Scheme?

You have two options.

Firstly, you could change the scheme, or indeed the conditions you have in place to join the scheme.

Secondly, you could look to put in place an additional pension, which is a Qualifying Scheme. Indeed, you may be forced to do this if you cannot make the necessary changes to the existing scheme or the conditions you have in place, often via an employment contract, for membership.

If you need to put a new scheme in place, remember:

- Traditional pension providers will have capacity issues over the next few years and will become very selective which schemes they take on and which they don't
- NEST have to accept all applications, but again, they may have capacity issues

If you need to put a new scheme in place, don't leave it too late.

How long will compliance take? How much will it cost?

We have already covered the minimum contribution levels you will need to make on behalf of your employees. In addition, there will be a cost associated with complying with the new rules and implementing your plan.

Employers have a simple choice: go it alone and the cost will be measured in the time it takes to comply, or bring in outside help, which will save time but incur cost.

The Centre for Economic Business Research conducted a study in September 2013 looking at the cost to employers of Automatic Enrolment and came to some interesting and somewhat frightening conclusions:

- The survey concluded that “UK businesses will pay fees of between £8,900 and £28,300 to meet their auto-enrolment obligations”, this was broken down as follows:
- As an alternative, businesses who decide to ‘go it alone’ and take no advice, face an average time cost of 103 working days to comply with the regulations
- In addition, these businesses will have to allocate an average of 3.5 days per month to stay compliant and deal with the on-going requirements of Automatic Enrolment

How can Investment Sense help?

We recognise many employers will feel rather daunted by what is required to comply with the new Automatic Enrolment regulations. We’ve therefore put in place a four stage process to take you from your current position to full compliance in time for your staging date.

We would also like to make it clear that our fees are significantly below those suggested in the research from the Centre for Economic Business Research.

This is in no small part down to the fact that we have identified that a large portion of the payroll providers market is indicating that employers need expensive ‘add-ons’ to their payroll programmes. This is simply not the case and there are far more cost effective alternatives. This will not only ensure that you don’t spend money you don’t need to at the outset, but that you also remain compliant going forward.

Our fee package is tailored to each individual employer and takes in to account their size, likely number of Workers, pay period frequency and quality of data.

Stage One: Education & getting to know your business

We will spend time with you to ensure you understand your Automatic Enrolment obligations. We’ll answer your questions, whilst taking time to understand your business and your requirements for implementing Automatic Enrolment.

This initial stage is undertaken by us without cost or obligation to you, to put it even more simply, it’s free!

Stage Two: Taking decisions & writing a project plan

We will:

Establish:

- Your Staging date, along with a timeline to get to that point
- Which Workers are affected

Help you to take decisions:

- How will you assess qualifying earnings?
- Will your existing pension (if you have one) meet the minimum criteria?
- What is your preferred type of scheme if a new one has to be put in place?
- Do you have any other scheme requirements?
- How and when will you communicate with your employees?

Help you to:

- Assess which of your staff are 'Workers'
- Categorise your existing Workers
- Ensure you have sufficient data to implement Automatic Enrolment

At the end of this stage you will have a comprehensive project plan to ensure you are compliant in time for your Staging Date.

Stage Three: Implementation

Here we'll take the project plan and make it a reality.

We'll remove the hassle and make your journey to your Staging Date as smooth as possible, whilst ensuring your valuable employees are kept fully informed of the changes.

Stage Four: Stay compliant

Complying with the new rules is only half the story, you then need to stay compliant!

As part of our on-going service we will deal with:

- Leavers
- Joiners
- Retirements
- Opt outs
- Opt ins / Reenrolments
- Reassessment of Workers
- Annual statements
- Questions from your staff

We will also run workshops for your employees and handle their questions & queries, leaving you free to get on with what you do best, running your business!

Automatic Enrolment isn't going away, your Staging Date is getting closer and the time you have to plan is getting tighter.

Our team of Automatic Enrolment specialists are here to help, get in touch today on 0115 933 8433 or email info@investmentsense.co.uk and chat to one of our advisers.

Contact us for more information



Contact our team of advisers today:

0115 933 8433

info@investmentsense.co.uk

Jargon Busting

Anything to do with money seems to attract new phrases and jargon which can be hard to understand for even the most experienced adviser or investor.

Automatic Enrolment is no different, so we've put together this handy jargon buster to help you understand some of the more unfamiliar phrases.

Automatic Enrolment Scheme

Qualifying pension scheme which can be used for Automatic Enrolment

Defined Benefit pension

A pension scheme where the benefits payable in retirement are known in advance, often referred to as a Final Salary pension

Defined Contribution pension

A pension scheme where the contributions, from both the employee and employer, are known, but the benefits are not guaranteed and will depend on the fund value at retirement eg. a Group Personal Pension

Eligible Jobholder

A worker who must be automatically enrolled into an Automatic Enrolment scheme due to their age and level of earnings

Entitled Worker

A Worker who is entitled to join a pension scheme but has insufficient earnings to be categorised as a Non-Eligible Jobholder or an Eligible Jobholder

Hybrid pension

A pension scheme with a mixture of Defined Benefit and Defined Contribution components

Non Eligible Jobholder

Has the right to Opt In to an Automatic Enrolment scheme, but is not classed as an Eligible Jobholder

PAYE (Pay As You Earn)

HM Revenue & Customs' tax payment mechanism

PAYE Scheme

HMRC's record for an employer who employs a worker or workers for whom PAYE taxable income is payable

PAYE Scheme reference number

A number issued by HMRC to identify each employer's PAYE scheme(s)

Pensionable Earnings

The earning of your employees on which pension contributions, from both you and they, are due

Qualifying Scheme

A pension scheme which meets the minimum criteria. Therefore existing members, who are Eligible Jobholders, will not need to be automatically enrolled.

Staging Date

The start date of an employer's Automatic Enrolment duties and the date by when they must comply

Worker

An individual who works under a contract of employment or other form of contract by which that individual undertakes to perform services personally

Approximate Staging Dates

No. Staff in Largest PAYE	Staging Date
120,000 or more	1 st October 2012
119,000 - 50,000	1 st November 2012
49,000 – 30,000	1 st January 2013
29,000 – 20,000	1 st February 2013
19,000 – 10,000	1 st March 2013
9,999 – 6,000	1 st April 2013
5,999 – 4,100	1 st May 2013
4,099 – 4,000	1 st June 2013
3,999 – 3,000	1 st July 2013
2,999 – 2,000	1 st August 2013
1,999 – 1,250	1 st September 2013
1,249 – 800	1 st October 2013
799 – 500	1 st November 2013
499 – 350	1 st January 2014
349 – 250	1 st February 2014
249 - 160	1st April 2014
159 - 90	1st May 2014
89 - 62	1st July 2014
61	1st August 2014
60	1st October 2014
59	1st November 2014
58	1st January 2015
57 - 54	1st March 2015
53 - 50	1st April 2015
49 - 40	1st August 2015
39 – 30	1st October 2015
Fewer than 30 (depends on the last 2 characters in PAYE reference number)	1st June 2015 to 1st April 2017
or New employer (depends on when PAYE income first payable)	1st May 2017 to 1st Feb 2018



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