



3D Financial Planning Independent Financial Advisors

Auto-enrolment

A guide to auto-enrolment for small businesses.

Since 2012 over 6 million employees have been automatically enrolled in workplace pension schemes by nearly 80,000 employers.

Between 2016 and 2018 a further 1.8 million companies will reach their staging dates, most of them small employers with 30 or fewer employees.

The Public Accounts Committee has stressed that while the process has been a success so far, the "real test" lies ahead as smaller employers begin to enrol staff.

The Committee also expressed concerns about the "potential burden" being placed on employers with fewer administrative resources as a result of the introduction of measures such as the national living wage and the apprenticeship levy.

John Allan, national chairman of the Federation of Small Businesses, has said: "Auto-enrolment is coming and will affect your business – and the sooner you get to grips with what you need to do, the better off you will be."

Here is what a business starting auto-enrolment needs to know.

Employer responsibilities

You have a number of responsibilities with regards to a workplace pension if you employ at least 1 person who:

- earns more than £10,000 a year
- is aged over 22 but below state pension age
- normally works in the UK.

Your legal obligations are:

- choose and set up a suitable pension scheme
- assess the eligibility of your staff at every pay period
- enrol eligible employees and make contributions
- manage the process of joining and opting out
- keep accurate and up to date records.

We can help you understand your pension responsibilities.



Contributions

Auto-enrolment is essentially about trying to ensure that as many people as possible begin saving into a pension. An ageing population and increasing life expectancies mean that having enough income for retirement is an important part of everyone's financial life.

Auto-enrolment sets a legal minimum for the amount that both an employee and their employer must pay into the company's chosen pension scheme each month. The contributions made on qualifying earnings, which is the money you make from employment before income tax and national insurance are deducted, that are between £5,824 and £42,385 a year.

These are currently:

- employee: 0.8%
- employer: 1%.

The government also adds tax relief of 0.2% on qualifying earnings.

The minimum employee and employer contributions and government tax relief will increase over time until the total contribution reaches 8% in April 2019.



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Letting employees know

It is important that the people affected are not kept in the dark as some of the money they earn is diverted into their pension pot. You should set up a timetable to communicate the following:

- what the process involves and the reasons behind its implementation
- whether an employee is eligible for automatic enrolment
- how much you will be contributing and the minimum employee contributions
- the pension scheme you have chosen
- when the change will occur
- how they can opt out.

You should make sure that everyone in your company knows about the changes, even if they are not eligible to be enrolled.

We can assist you in getting auto-enrolment right.

Opting in and out

One of the reasons it is important to make all workers aware of the changes is that they have the right to opt out, or in some cases, take part in the process.

Opting in

Some workers who don't meet the criteria for auto-enrolment have the right to join a workplace pension scheme.

There are various rules to determine which workers are allowed to opt in and what type of pension the employer has to offer.

When opting out applies

The opting out process can apply in the following situations:

- employees who have already been automatically enrolled
- non-eligible employees who have chosen to opt in may then choose to opt back out again.

Again, it is important that employees have been given all of the relevant information so that they can make an informed decision.

The opting out process

Anyone who wants to opt out of a workplace pension scheme needs to provide their employer with an opt out notice (usually provided by the pension scheme provider).

When the employer receives the notice, they must act to remove the individual from the scheme in question. This may mean that the employee is due a refund for any contributions they have made.

It is also important to keep accurate records of all opt outs for 4 years and the date on which the individual ceased to be part of a scheme for 6 years.

Cyclical automatic re-enrolment happens every 3 years and is essentially a repeat of the process that starts auto-enrolment where all eligible workers who have opted out will be enrolled on the scheme again unless they choose to opt out again.

Penalties

Employers who fail to comply with their auto-enrolment will face penalties. The penalty system works in 3 stages:

Compliance or unpaid contribution notice

The employer will receive a notice detailing the nature of the offence and the timescale during which the matter must be put right. At this point interest may be added to any unpaid contributions.

Fixed penalty notice

If the matter is not settled, a fixed penalty of £400 will be applied.

Escalating penalty

If the employer continues to not comply with their legal obligations, the next stage will be a daily penalty charge.

Penalties

Number of employees	Daily rate
1-4	£50
5-49	£500
50-249	£2,500
250-499	£5,000
500 +	£10,000

Get in touch to talk about your auto-enrolment responsibilities.

Auto-enrolment checklist

Here is a checklist of the steps that need to be completed by small employers:

1. Find your staging date – this is based on your payroll information on 1 April 2012. You can find your staging date on The Pension Regulator's website.
2. Assess your workforce to see who is eligible to be automatically enrolled.
3. Select a scheme if you don't already have one or review your existing scheme.
4. Communicate the changes to your employees – make sure to make them aware of the scheme they will be enrolled in, their rights, their contributions and the opting out process.
5. Begin to automatically enrol your eligible employees that have not opted out.
6. Complete your declaration of compliance for The Pensions Regulator and begin keeping records.
7. Begin contributing to your employees' pensions.

Important Notice

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

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