



Auto-enrolment for businesses



A guide to staying compliant with auto-enrolment.

Auto-enrolling employees into a workplace pension scheme is a legal requirement for all businesses, from those employing hundreds to those with 1 or 2 people on the payroll.

Over 6 million workers have been enrolled since 2012, with a further 1.8 million due over the next 2 years as the process turns to smaller employers.

The Pensions Regulator has warned that while the majority of companies are complying with the process, a rise in non-compliance is expected from smaller employers who have not prepared properly.

So far 2016 has matched these expectations with 806 fixed penalty notices (bringing the total since 2012 to 2,234) and 96 escalating penalty notices (making the total 127) being issued in the first quarter.

Non-compliance with auto-enrolment can lead to daily fines of £10,000 for businesses with 500 or more employees. So it is important that all businesses know exactly what is required of them.

What is required?

Auto-enrolment applies to your business if you employ anyone with annual earnings of over £10,000 that is aged over 22 and normally works in the UK.

Businesses with these kinds of employees must then:

- select and set up a suitable pension scheme
- evaluate the eligibility of staff at every pay period
- add eligible workers to the selected pension scheme
- begin making contributions
- maintain accurate records
- allow employees to opt in, opt out and enrol newly eligible employees.

While it is possible to view auto-enrolment as a logistical burden with potentially dire financial consequences for non-compliance, it is equally possible to view it as an important step in ensuring that employees have the opportunity to save for retirement.

Contributions

Both the employer and employee contribute to a workplace pension scheme, and there is a legal minimum contribution level.

Contributions are calculated using qualifying earnings which for 2016/17 are those between £5,824 and £43,000. This means that the first £5,824 is not included in the calculation of an employee's contributions and sets an upper limit on qualifying earnings of £37,176 (£43,000 minus £5,824) for 2016/17.

An individual's salary, overtime, bonuses, commission, statutory sick pay and other statutory pay (such as maternity) are all included when calculating qualifying earnings.

The current minimum contribution levels are:

- 1% of qualifying earnings for employers
- 0.8% of qualifying earnings for employees
- the government adds tax relief for 0.2% of qualifying earnings.



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These levels are set until 6 April 2018, when they will increase to the following levels until 6 April 2019:

- 2% for employers
- 2.4% for employees
- 0.6% government tax relief.

The contributions are due to rise again from 6 April 2019 bringing the total contribution to 8%.

Opting in and out

Individual employees can choose whether they want to be part of the pension scheme you have chosen.

There are a number of rules that determine which workers are allowed to opt in and the circumstances under which they can do so if they are not automatically eligible.

Opting out

An employee has the right to not participate in a workplace pension scheme if they have already been enrolled or opted in.

The opting out process consists of the following steps:

- the individual must provide the employer with an opt out notice (usually provided by the pension scheme provider)
- the employer removes the individual from the scheme
- the employee is refunded any money they are due for contributions made (a full refund is due if the employee opts out within a month of being enrolled).

There is also a legal requirement for employers to keep records of all opt outs for 4 years.

Every 3 years an employer is required to essentially repeat the initial process of evaluating employee eligibility (including those that have opted out) and enrolling the relevant people.

All employees, even those who do not qualify for auto-enrolment, should be given as much information as possible so that they can make an informed decision about what is best for them.

We can advise you on how to stay compliant.

Penalties

The penalties levied on companies who fail to comply with their auto-enrolment obligations come in 3 stages:

- the employer receives a compliance or unpaid contribution notice informing them of the nature of the offence and the timescale for rectification
- if the matter is not rectified, the employer receives a fixed penalty of £400
- if non-compliance continues, daily accrual charges will begin to be applied.

The daily penalties relate to the number of employees the business has.

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

Small businesses action plan

With the penalties for non-compliance potentially having a large financial impact on employers, it is important to understand the pitfalls.

Among the most common mistakes that a small business might make with regard to auto-enrolment are:

- not aligning the staging date with payroll payment dates (you can do this by postponing your start date)
- starting the process too late
- forgetting or not realising that regular updates to The Pension Regulator are still required once running auto-enrolment.

With these common mistakes in mind, here is the auto-enrolment process broken down into manageable steps:

Now

Get your staging date – you need to use your 1 April 2012 payroll information on The Pension Regulator website.

6 months before your staging date

Choose your pension scheme or check if your current one is suitable for auto-enrolment.

On your staging date

Assess your workforce – who is eligible for auto-enrolment?

Enrol those who are eligible.

Begin contributing.

Within 6 weeks after your staging date

Communicate the changes – your employees need to be made aware of the changes to their pay and the scheme you are using.

Within 5 months after your staging date

Complete a declaration of compliance – this must be sent to the regulator and records keeping initiated.

Auto-enrolment can look like an intimidating mountain to climb for smaller businesses, but we can help you get the best out of the process 1 step at a time.

We can help you with successfully implementing auto-enrolment.