Auto enrolment has arrived - comply or pay the price!

Auto enrolment leaves employers at risk of increased employee benefit costs and potential fines with the Pensions Regulator

New workplace pensions law means that every employer now has a legal duty to help their workers in the UK save for retirement. Employers must automatically enrol certain workers into a qualifying workplace pension scheme and make contributions towards it.

The legislation starts with large corporates, and will progress to all employers over a six-year period.

The facts

From 1st October 2012, new regulations require every employer to automatically enrol the vast majority of their workforce into a pension scheme, and make contributions on their behalf. By October 2018, an employer contribution of 3% will be required.

What to do?

Employers need to:

- Ensure you review any existing pension arrangements.
- Provide a qualifying scheme for workers.
- Automatically enrol all eligible jobholders onto the scheme.
- Pay an employer contribution for eligible jobholders to the scheme.
- Inform all eligible job holders that they have been automatically enrolled, and that they can opt out if they want to.
- Register details of the scheme with the Pensions Regulator.

Who needs to be auto-enrolled?

All employers operating in the UK will have to automatically enrol staff into a qualifying pension scheme if they:

- Are aged 22 to state pension age and normally work in the UK.
- Earn more than the minimum earnings threshold set by the government.
- Are not currently in a qualifying pension scheme.
- Other employees can ask to join the scheme even if they are not in this category, although you may not have to contribute.

Your choices

You can use either a pension scheme through an insurance provider or alternatively, one of the third party providers such as NEST, Peoples Pension or Now Pensions.

Non-Compliance

Employers who fail to comply with their new duties may be subject to statutory notices, penalties or escalating fines.

Non-Compliance may be subject to a fixed penalty notice of £400 and the table below illustrates the escalating penalties that might be applied to employers if the notice is not acted upon:

Fines

Staff on payroll	Daily Rate
1-4	£50
5-49	£500
50-249	£2,500
250-499	£5,000
500 or more	£10,000

Wilful failure to comply can result in up to two years' imprisonment.

Opting out

Employees can opt-out of the employer's scheme if they want to. The employer is required to automatically enrol new and existing employees, including those who have opted out, every 3 years.

Employees can opt-out at any time, and if this is within a month of receiving information from the employer, they are regarded as having never been a member of the pension scheme.

In addition to the requirement to auto enrol, employers are banned from offering incentives to workers to opt out of an auto enrolment scheme. There are separate penalties that apply to employers using prohibited recruitment conduct which are:

Staff on payroll	Fixed Penalty
1-4	£1,000
5-49	£1,500
50-249	£2,500
250 or more	£5,000

When will it happen?

Your 'staging date' is determined by the total number of employees in your largest PAYE scheme, based on the information held by HMRC at 1 April 2012. A summary of staging dates is listed below, for those employers with staging dates from August this year, and you can check the detail at www.thepensionsregulator.gov.uk.

You can usually bring forward your staging date to fit better with your accounting and scheme renewal dates. Alternatively, you can postpone your staging date for a 3 month period.

You need to make sure you leave yourself enough time to plan ahead, so check below to find your likely staging date. It is recommended that you plan at least 12 months ahead.

Staging dates

Staff on payroll	Staging date
2,000 - 2,999	1 August 2013
1,250 - 1,999	1 September 2013
800 - 1,249	1 October 2013
500 - 799	1 November 2013
350 - 499	1 January 2014
250 - 349	1 February 2014
160-249	1 April 2014
90-159	1 May 2014
62-89	1 July 2014
61	1 August 2014
60	1 October 2014
59	1 November 2014
58	1 January 2014
54-57	1 March 2015
50-53	1 April 2015
40-49	1 August 2015
30-39	1 October 2015
Less than 30	Between July 2015 & 1 April 2017

Impact of auto enrolment on other employee benefit arrangements

If you offer employee benefits, like Life Insurance or Group Income Protection, which are linked to a pension scheme, this could mean that insurance costs will increase due to more people being eligible for them through the pension scheme.

If the average age of your pension scheme or occupational type in it changes, this could also affect premium rates.

What action should you take?

If you offer employee benefit programmes, you need to decide whether or not to de-link these from your current pension scheme membership.

You also need to be prepared to invest more time in administrating schemes, as more employees join, possibly opt in and out, and are re-enrolled every 3 years.

Any employee who has taken Enhanced, Primary or Fixed Protection as a result of Pensions Simplification, (A day Legislation 06/04/06), should be advised to take individual pensions advice.

The Insurer's response

To reduce the administrative burden on employers, many Insurers are relaxing their standard policy terms regarding new members and short term risk variations as a result of auto enrolment. Employers need to check specific details with their Insurer, but typically changes include:

- Waiving 'actively at work' requirements for new members in Group Life schemes over a certain size.
- Reduction of cover for long-term absentees, and introduction of medical underwriting in some cases.
- Policy costs may be reviewed where changes in membership or benefits after the opt-out process exceeds 25%.
- No charge for cover provided to members who opt-out of the pension scheme during its opt-out window.
- Premiums are likely to be adjusted immediately following change in membership or benefits due to auto enrolment – from the auto-enrolment date. If no adjustment is made, then the premium will be reviewed as part of the end of year accounting process.

Further information

Contact your PMI Health Group Adviser for further details of the subjects covered, including your employee pension arrangement.

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