

Automatic Enrolment and Workplace Pension Reform – the facts

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1 Workplace pension reform

Millions of people are not saving enough to have the income they are likely to want in retirement. Life expectancy in the UK is increasing and at the same time people are saving less into pensions. These are challenges that need to be addressed.

In 1901 there were 10 people working for every pensioner in the UK. In 2005 there were 4 people working for every pensioner. By 2050 it is expected that this will change to just two workers for every pensioner.

2010

Figures show that the ratio for people of working age versus pensioners is currently three workers for every pensioner



The Pensions Act 2008 laid the foundations for a fundamental reform of workplace pensions, requiring every employer to automatically enrol their workers into a qualifying pension scheme, if they are not already in one, and contribute to that pension.

Automatic enrolment will help to address the issues that prevent people from saving into a pension scheme, such as:

- pensions saving being complicated and confusing;
- people simply not getting around to it;
- a lack of suitable pension products being available for people on low to moderate incomes; and
- lack of employer pension provision, particularly in smaller firms.

There are three main delivery partners who have responsibility for ensuring that the programme is rolled out and maintained in the most effective way possible:

- [Workplace Pension Reform](#), which is part of the Department for Work and Pensions (DWP), is responsible for the policy, legislation and overarching communications for the changes.
- [The Pensions Regulator \(TPR\)](#) is responsible for maximising employers' compliance with their new duties.
- [NEST Corporation](#) (the National Employment Savings Trust Corporation) is a pension provider available to all employers who want to use it. NEST has been designed to complement existing pension provision.

2 Automatic enrolment – the basics

From 2012 every employer will have to enrol into a workplace pension, those workers who:

- are not already in a workplace pension scheme;
- are at least 22 years old;
- have not yet reached State Pension age;
- earn more than the minimum earnings threshold (likely to be £7,475 a year); and
- work or ordinarily work in the UK (under their contract).

The timing depends upon the size of the employer. Very large employers are doing it first, in late 2012 and early 2013. Other employers will follow during 2013 - 2016.

The pension scheme must be a qualifying scheme, meaning it must meet certain Government standards. This is the first time that employers have been required by law to contribute to their workers' pensions.

A new pension scheme, NEST (National Employment Savings Trust) has been established, it is available to any employer who chooses to use it. This will enable all employers to provide a pension scheme for their workers, either using NEST, their own scheme or another pension provider.

Timings

These reforms will be introduced over a period of four years, starting from 2012. This timescale is intended to give employers time to get prepared and have systems in place.

Each employer has a date on which they have to begin the process of automatic enrolment. This is referred to as their 'staging date'. At this point they must communicate in writing to both those workers who are going to be automatically enrolled and those who aren't (those who are younger or older than the qualifying criteria, those who earn less than £7,475 and those who are already in a workplace pension).

The largest employers will begin first, followed by medium then small employers. Their staging date is determined by their Pay As You Earn (PAYE) scheme. (Please see annex A).

Opting out and re-joining

- Workers can opt out if they want to. They have a month to opt out from the day they officially become a member of the scheme. Any payments into the pension pot made during this time will be refunded.
- After this opt out period workers can choose to leave the scheme at any time. However, the payments already made will not be refunded and will remain in their pension pot.
- Workers who have opted out or left the pension scheme can re-join at a later date if they wish.
- Employers will also have a duty to automatically enrol workers back into the scheme approximately every three years, so long as they are at least 22 years of age, below State Pension age and are earning over the minimum earnings threshold. This is to give those who have left the scheme the opportunity to reconsider their pension saving.

Examples

Someone who will be automatically enrolled



- Fiona is aged 27 and earns £37,000 per year working for a recruitment consultancy company.
- She is not already a member of a pension scheme at work.
- Fiona's employer is required to automatically enrol her into a workplace pension scheme and make at least the minimum contribution.
- Workers eligible for automatic enrolment are:
 - working in the United Kingdom;
 - at least 22 years old;
 - have not yet reached State Pension age; and
 - earn more than the minimum earnings threshold (likely to be £7,475 a year).

Someone who is too young and therefore will not be automatically enrolled



- Raj, aged 20, works for a building contractor and earns £17,000 per year.
- As Raj is aged 20, his employer is not required to automatically enrol him into a workplace pension.
- However, Raj can ask his employer to put him into the workplace pension scheme and his employer will have to make a contribution to his pension.
- Those aged at least 16 and under 22 or between State Pension Age and under 75 but earning over the minimum threshold can choose to join their workplace pension scheme and their employer must contribute.

Someone who earns less than the minimum earnings threshold



- Peter is aged 42 and earns £25 per week working as a cleaner for a small charity.
- As Peter's total yearly earnings are below the minimum earnings threshold (likely to be £7475 a year), his employer will not have to automatically enrol him into a workplace pension.
- Peter can ask his employer to make arrangements to put him into a pension. His employer does not have to pay any contributions but may do so if they wish.
- Those who earn below the automatic enrolment minimum earnings threshold can choose to join workplace pension saving and their employer can choose to contribute.

Someone who opted out and is automatically enrolled back in again after 3 years



- Lily is 26, works full time and earns £28,000 per year however she is under pressure to repay a number of debts.
- If pension saving is not right financially for Lily she has the right to opt out of workplace pension saving. She will receive a refund on any contributions she has made if she opts out in the first month of being enrolled by her employer.
- Under automatic enrolment rules Lily’s employer must automatically enrol her back in (if she still meets the eligibility criteria) approximately three years from the original enrolment date. This gives Lily the opportunity to re-assess her finances and pension saving opportunities once her financial obligations have become more settled (and she can decide to opt out again).

Contributions

The amount of money being paid in by the worker, the employer and by the government, in the form of tax relief, is calculated as a percentage of the worker’s earnings.

The government has set a minimum percentage that has to be contributed in total. That means the worker’s contribution, the employer’s contribution and the tax relief added together. This minimum increases gradually between 2012 and Oct 2017.

Timing	Minimum total percentage that has to go into the pension pot
October 2012 to September 2016	2%
October 2016 to September 2017	5%
October 2017 onwards	8%

Contributions to the pension scheme can exceed this minimum.

Within that total contribution, the government has also set a minimum percentage that has to be contributed by the employer. This will also increase gradually over time.

Timing	The minimum that has to be contributed by the employer
November 2012 – September 2016	1%
October 2016 to September 2017	2%
October 2017 onwards	3%

The minimum contribution level is just that, a minimum. Employers will be able to contribute more than the minimum if they wish: many already do.

These minimum percentages do not apply to all of the worker's salary, but on what they earn over a minimum (currently £5,715) up to a maximum limit (currently £38,185). So for example, for someone who earns £18,000 a year, the minimum percentages apply to the difference between £18,000 and £5,715, which is £12,885.

Overtime and bonus payments are included in earnings for the purposes of calculating the contributions.

For defined benefit and hybrid pension schemes, alternative arrangements apply.

3 Choosing a Pension scheme for automatic enrolment

Employers need to choose a pension scheme that meets certain Government standards. To qualify, minimum contributions must be made into the scheme, or it must provide a minimum rate at which benefits will build up.

Options available to an employer when choosing their scheme are:

- use an existing pension scheme if it qualifies;
- amend an existing scheme to meet the qualifying criteria – employers with existing pension provision that does not meet the minimum qualifying criteria may decide to amend the scheme so that it qualifies;
- set up a new pension scheme which meets the qualifying criteria; and/or
- use NEST – any employer can choose to use NEST for some or all of their staff;
- an employer can also use a combination of these options for different areas of their workforce.

Regardless of the scheme the employer chooses, they must give their workers factual information such as: that they are going to be enrolled into a pension scheme; what that pension scheme is and the amount of contributions they will have to pay.

NEST (National Employment Savings Trust)



NEST is open to all employers and has been designed to offer simple, low cost pension provision.

Although NEST will generally be subject to the same legal requirements as other occupational pension schemes, certain differences will apply, in particular:

- it will accept all employers who wish to use it;
- it has to limit its impact on the existing market – there is a cap on member contributions and it cannot transfer pension rights from or to other schemes. The Government will review these limitations in 2017;
- it will offer the same low charge to members, regardless of whether they work for a small, medium or large employer. Its low charge – broadly equivalent to a 0.5 per cent Annual Management Charge – is comparable with those currently available to members of large workplace schemes; and
- it will ensure employer and member representation. As NEST is such a large and diverse scheme it will not have traditional member-nominated trustees but employer and member panels.

For more information on NEST visit: www.nestpensions.org.uk

Employer registration

The Pensions Regulator

When an employer has completed the automatic enrolment process they will then have to register with The Pensions Regulator.

This is to show that they have met their automatic enrolment responsibilities. It will be used to identify employers who might need further support, and follow up on those who have not complied with their responsibilities.

The Pensions Regulator will be sending letters out to employers in advance of their staging date. These letters will inform employers how they can find out more about what their duties are and how to comply as well as when their duties will apply. They are intended to give the employer time to prepare themselves to automatically enrol their eligible jobholders. A further letter will be sent out as a final reminder to those employers who are not already prepared for their duties and automatic enrolment. Before their staging date employers will need to choose a qualifying pension scheme and register with the scheme provider.

Ten million individuals are expected to be eligible for automatic enrolment, so pension providers will be processing an unprecedented amount of workers. In order to ensure that the automatic enrolment process works smoothly and that workers are automatically enrolled on time, employers will need to approach their chosen pension provider in plenty of time to ensure their required scheme is set up before their staging date.

Employers will be required to automatically re-enrol eligible jobholders who have left a qualifying pension scheme every three years, with some flexibility around this date, and they will need to re-register with The Pensions Regulator once they have done this.

For more information on the Pensions Regulator visit: www.thepensionsregulator.gov.uk

4 Next steps

Communication and information to support the roll out of automatic enrolment will increasingly become available during 2011 and 2012.

Specific information will be available to meet the needs of employers, their intermediaries and workers.

The Pensions Regulator will provide information about how employers can comply with their new duties through online detailed guidance and interactive tools that are currently being developed.

Information for individuals will be available on the Directgov website.

5 Timeline for review recommendations

The [Making automatic enrolment work](#) review report was published in October 2010. The report confirmed the need for automatic enrolment and NEST. It supported continuation of the reforms, while making some suggestions to improve the programme.

Some of the recommendations made by the review team will require changes to The Pensions Act 2008. To achieve this, a Bill has been introduced to Parliament. We anticipate this process will be completed during 2011. There will then be a period of consultation with stakeholders and the public, to set any new Regulations required. The table below sets out the major changes that will require legislative amendment following the Making automatic enrolment work review.

Legislation	Current	Bill
Earnings threshold	£5,035	£7,475
Three month waiting period	No waiting period	Option of up to three month waiting period available to all employers
Early automatic enrolment for large employers in the first two tranches	Currently not able to enrol prior to October 2012	Given option to enrol from July 2012
Flexibility around automatic re-enrolment	One month flexibility around automatic re-enrolment	More flexible automatic re-enrolment timelines

6 Other useful websites

- [Workplace Pension Reform](#) on the Department for Work and Pensions (DWP) website.
- [Directgov \(Build a better future\)](#) – Information on planning and saving for later life.
- [Business Link](#) – Information for employers from DWP.

This document is only a guide and does not cover every circumstance. The information contained in the document is correct as of May 2011. Some of the information may become inaccurate over time, for example because of changes to the law.

Department for Work and Pensions

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Annex A – Staging dates by employer size

Employer (by PAYE scheme size or other description)	Staging date
120,000 or more	1 Oct 2012
50,000-119,999	1 Nov 2012
30,000-49,999	1 Jan 2013
20,000-29,999	1 Feb 2013
10,000-19,999	1 Mar 2013
6,000-9,999	1 April 2013
4,100-5,999	1 May 2013
4,000-4,099	1 June 2013
3,000-3,999	1 July 2013
2,000-2,999	1 Aug 2013
1,250-1,999	1 Sept 2013
800-1,249	1 Oct 2013
500-799	1 Nov 2013
350-499	1 Jan 2014
250-349	1 Feb 2014
Less than 50 with the last 2 characters in their PAYE reference numbers 92, A1-A9, AA-AZ, B1-B9, BA-BY, M1-M9, MA-MZ, Z1-Z9 or ZA-ZZ	1 Mar 2014
240-249	1 April 2014
150-239	1 May 2014
90-149	1 June 2014
50-89	1 July 2014
Less than 50 with the last 2 characters in their PAYE reference numbers BZ	1 Aug 2014
Less than 50 with the last 2 characters in their PAYE reference numbers 00-01	1 Sept 2014
Less than 50 with the last 2 characters in their PAYE reference numbers 02-04	1 Oct 2014
Less than 50 with the last 2 characters in their PAYE reference numbers 05-07, 0A-0Z, C1-C9, CA-CZ, D1-D9 or DA-DZ	1 Nov 2014
Less than 50 with the last 2 characters in their PAYE reference numbers 12-15, 2A-2Z, F1-F9, FA-FZ, G1-G9 or GA-GZ	1 Feb 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 16-20, 3A-3Z, H1-H9 or HA-HZ	1 Mar 2015

Employer (by PAYE scheme size or other description)	Staging date
Less than 50 with the last 2 characters in their PAYE reference numbers I1-I9, IA-IZ	1 April 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 21-25, 4A-4Z, J1-J9 or JA-JZ	1 May 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 26-31, 5A-5Z, K1-K9 or KA-KZ	1 June 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 32-38, 6A-6Z, L1-L9 or LA-LZ	1 July 2015
Less than 50 with the last 2 characters in their PAYE reference numbers N1-N9 or NA-NZ	1 Aug 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 39-47, 7A-7Z, O1-O9, OA-OZ, P1-P9 or PA-PZ	1 Sept 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 48-57, 8A-8Z, Q1-Q9, QA-QZ, R1-R9, RA-RZ, S1-S9, SA-SZ, T1-T9 or TA-TZ	1 Oct 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 58-69, 9A-9Z, U1-U9, UA-UZ, V1-V9, VA-VZ, W1-W9, WA-WZ	1 Nov 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 70-83, X1-X9, XA-XZ, Y1-Y9 or YA-YZ	1 Jan 2016
Less than 50 with the last 2 characters in their PAYE reference numbers 84-91 or 93-99	1 Feb 2016
(a) Less than 50 unless otherwise described or (b) no PAYE scheme	1 Feb 2016
New employer (PAYE income first payable between 1st April 2012 and 31st March 2013)	1 Mar 2016
New employer (PAYE income first payable between 1st April 2013 and 31st Dec 2013)	1 May 2016
New employer (PAYE income first payable between 1st Jan 2014 and 30th Sept 2014)	1 June 2016
New employer (PAYE income first payable between 1st Oct 2014 and 30th June 2015)	1 Aug 2016
New employer (PAYE income first payable between 1st July 2015 and 31st March 2016)	1 Sept 2016

The Pension Regulator will write to all employers around 12 months before their staging date so that they know when to automatically enrol those workers who meet the criteria listed on page 5. Three months before the employer's staging date the Regulator will write again to remind them of the new duties and the need to register. Employers with more than one PAYE will start their duties for all their PAYEs at the same time, on the staging date of their largest PAYE.