

AUTO-ENROLMENT WEST MIDLANDS PENSION FUND

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Auto-enrolment

Helping you towards compliance

What do employers have to do to comply with Auto Enrolment

How to start

Practical Example

What else and what next



Have you started to plan for Auto-enrolment?

- A. Not familiar with the requirements
- B. Not started yet
- C. Yes, but only just started
- D. Yes, progressing well

Auto-enrolment

Summary of key employer duties

- Legislation introduces an employer duty to auto-enrol all eligible jobholders into a qualifying pension scheme.
- To pay a minimum level of contribution on their behalf on qualifying earnings between £5,715 and £38,185 (NI threshold 2010/11 terms).
- Auto-enrolment applies to jobholders between age 22 and State Pension Age with earnings over £7,475 (level personal tax allowance 2011/12 terms).
- Jobholders can opt out, but must be re-enrolled every 3 years.
- Non eligible employees can choose to opt in and employer enrolls.
- 3 month waiting period can apply.

Auto-enrolment

Staging and Phasing process combined

	Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	Year 4 2015/16	Year 5 2016/17	Year 6 2017 onwards
Staging	Staging by number of employees (by PAYE scheme or other description), for example 4,100 – 5,999 by 1 May 2013 4,000 – 4,099 by 1 June 2013 3,000 – 3,999 by 1 July 2013 2,000 – 2,999 by 1 Aug 2013 1,250 – 1,999 by 1 Sep 2013 800 – 1,249 by 1 Oct 2013			Staging of remaining small and new employers	Staging complete – all employers must comply	
Defined benefit and hybrid phasing	Transitional period				All eligible workers have been auto-enrolled	
Defined contribution phasing (% of qualifying earnings)	Transitional period					
	1% minimum employer contribution 2% minimum total contribution				2% min. employer contribution 5% min. total contribution	3% min. employer contribution 8% min. total contribution

Auto-enrolment

What do employers have to do to comply with Auto-enrolment

- Anticipate those employers using LGPS as auto-enrolment scheme (e.g. scheduled bodies) can delay beyond their staging date until 1 October 2016 to auto-enrol existing opt-outs
- But anticipate no delay for new employees eligible for LGPS
- Casual employees could be affected if meet other eligibility requirements (including possible 3 month waiting period)
- Complications: seasonal staff, temps & part-timers or changed hours

Auto-enrolment

What do employers have to do to comply with Auto-enrolment

Impact on pension scheme

Impact on payroll

Impact on HR systems

Additional record keeping requirements

Increase in quantity of communication

Auto-enrolment

How to start – consider member treatment

- Automatic enrolment date is latest of the dates on which a job holder:
 - Starts employment with the employer
 - Reaches age 22
 - Earnings reach the standard personal tax allowance (£7,475 in 2011/12)
 - Possible 3 month waiting period
- Job holder is under age 22 but has qualifying earnings
 - Can ask to join
 - Employer **must** pay contributions
- Job holder is under qualifying earnings level
 - Can ask to join
 - Employer contributions are **not** payable



Auto-enrolment Practical example

John joins at 21

Declines
membership

John reaches 22

Auto-enrolment communication
Payroll is updated
Contributions commence
Pension scheme records updated
John opts-out
Payroll is updated
Contributions cease; refund paid.
Diarise for re-enrolment dates
broadly every 3 years

John reaches 24

He wants to opt in
Communications
issued
etc

Auto-enrolment Practical example

- HR send Payroll new joiner information
- Payroll calculates, deducts and submits contribution payment
- Usual contribution submission by 19th day of following month is eased by the Auto-enrolment legislation
- Allows a process to be set up for holding onto contributions for members during opt-out period up to end of 2nd month after auto-enrolment date
- Reconciling contributions – potential headache



From what you've heard, what impact will compliance have on your existing HR & Payroll systems?

- A. No change
- B. Minimal change
- C. Significant change
- D. Don't know

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What else and what next

- Operational risk of auto enrolment
 - Large numbers of employees to be enrolled at one point in time
 - Brings risk to the employer and their pension arrangements
 - Specific project to achieve a successful staging process
 - Considerable revision of processes for steady state
- Opting out
 - Employer must be removed from this process
 - Brings risk of break down in communications
- Auto re-enrolment
 - Employer duty
 - Process to identify who and when

The range of options is broad for auto-enrolment scheme

Use existing scheme	New scheme for new employees and those not currently in another scheme	NEST (National Employment Savings Trust)	Segment workforce
<ul style="list-style-type: none"> • LGPS? (Scheduled bodies need to) • Another existing scheme - DB or DC? • Adjust to accommodate auto-enrolment • Consolidate existing arrangements? 	<ul style="list-style-type: none"> • Set up new DC scheme • Or packaged solution • Broader workplace savings solution (pension, ISAs, cash account) e.g. Mercer Workplace Savings • Difficult for smaller employers to access cost-effective solution (mercer-elect, pooled) 	<ul style="list-style-type: none"> • Minimum compliance option • Targeted mainly at low earners • Low contribution limit means less targeted at higher earners • NEST / DC not an option for Scheduled body 	<ul style="list-style-type: none"> • Different solutions for each segment? • Nursery scheme before feeds into main scheme? • Flexibility? • Complexity?

Will be driven by employer objectives and capacity to implement

Auto-enrolment

What else and what next

Significant exercise

- typically expected to take around 18 months
- will require strong project management skills & pressure on resource
- Set up a working party from Finance, HR, Payroll & Pensions teams responsible for driving through the required changes
- External advice and experience available to help support working party
- Set up Project Plan to manage auto-enrolment process
- Assess estimated costs of changes and extra employer contributions
- Make allowance in budget for these additional costs

Any questions



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Appendices



Auto-enrolment Terminology



A **worker** is an employee of the employer (including contract and agency workers)

A **jobholder** is a worker who ordinarily works in the UK, is between 16 and 75 years of age and is paid qualifying earnings in relation to a particular employment

Qualifying earnings are earnings between £5,715 p.a. and £38,185 p.a. (in 2010/11 terms) for annual pay reference periods

A **qualifying scheme** is a scheme that meets certain minimum requirements in respect of contributions or benefits provided

An **automatic enrolment scheme** is a qualifying scheme that meets additional requirements for automatic enrolment to occur

The **staging date** for each employer is set out in legislation and is based on employer size, as measured by the number of employees on the PAYE payroll

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Practical example – Items to be communicated to employees

- What is auto-enrolment and why happening?
- Date employee will be affected
- Scheme contact details
- Employee and employer contributions by pay reference period
 - **and that Employee contributions will be deducted from pay**
- Employer responsibility to maintain membership of auto-enrolment scheme
- Right to opt out during the opt out period as if never joined scheme
 - **the start and end date of the opt out period**
- Source of opt out form (not from employer) and factual implications of opting out (legislation prevents employer from encouraging opt-out)

Auto-enrolment

Practical implications – Items to be communicated to employees (Contd)

- Refund of contributions
- Right to opt in again
- Option to opt out even after the opt out period (treated as a scheme leaver)
- Notification of auto re-enrolment
- Tax treatment
- Contact for further information
- And anything scheme specific...
 - **Scheme booklet**
 - **Nomination forms**
 - **Additional Voluntary Contributions**
 - **And so on.....**



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