MBS Accounting
Introducing Auto-Enrolment:
Workplace pensions for small businesses

What is Auto- Enrolment?

Auto-Enrolment (AE) is a Government initiative in the UK to help more people save for later life through a pension scheme at work. People are living longer and not saving enough for retirement. As a result, their living standards may drop considerably in their retirement when relying on just the State Pension. Introducing a workplace pension is one of a number of pension reforms being rolled out by Government to address this growing issue.

AE means that all employers will need to ensure they have a qualifying pension scheme set up to enrol those workers for whom AE applies, or who wish to join a pension scheme voluntarily. It is being rolled out in stages and by October 2018 all employers will be required to offer a qualifying workplace pension scheme to eligible workers. If you have an existing workplace pension scheme available, you must check that it is AE compliant or can be changed. If not you will have to set up a new scheme.

AE is however, not just a pension issue; it impacts HR, payroll and finance functions in many ways. For many businesses the process could be costly and resource intensive. Being ready to comply with AE could be a journey of considerable length and varies according to the number of employees that you have; the impact is so much more than just extra pensions' cost. Also consider that if you only have 2 or 3 employees and run your own payroll, you may not have the necessary administration resources available to manage the initial planning and the additional ongoing work that may be required with your payroll every month.

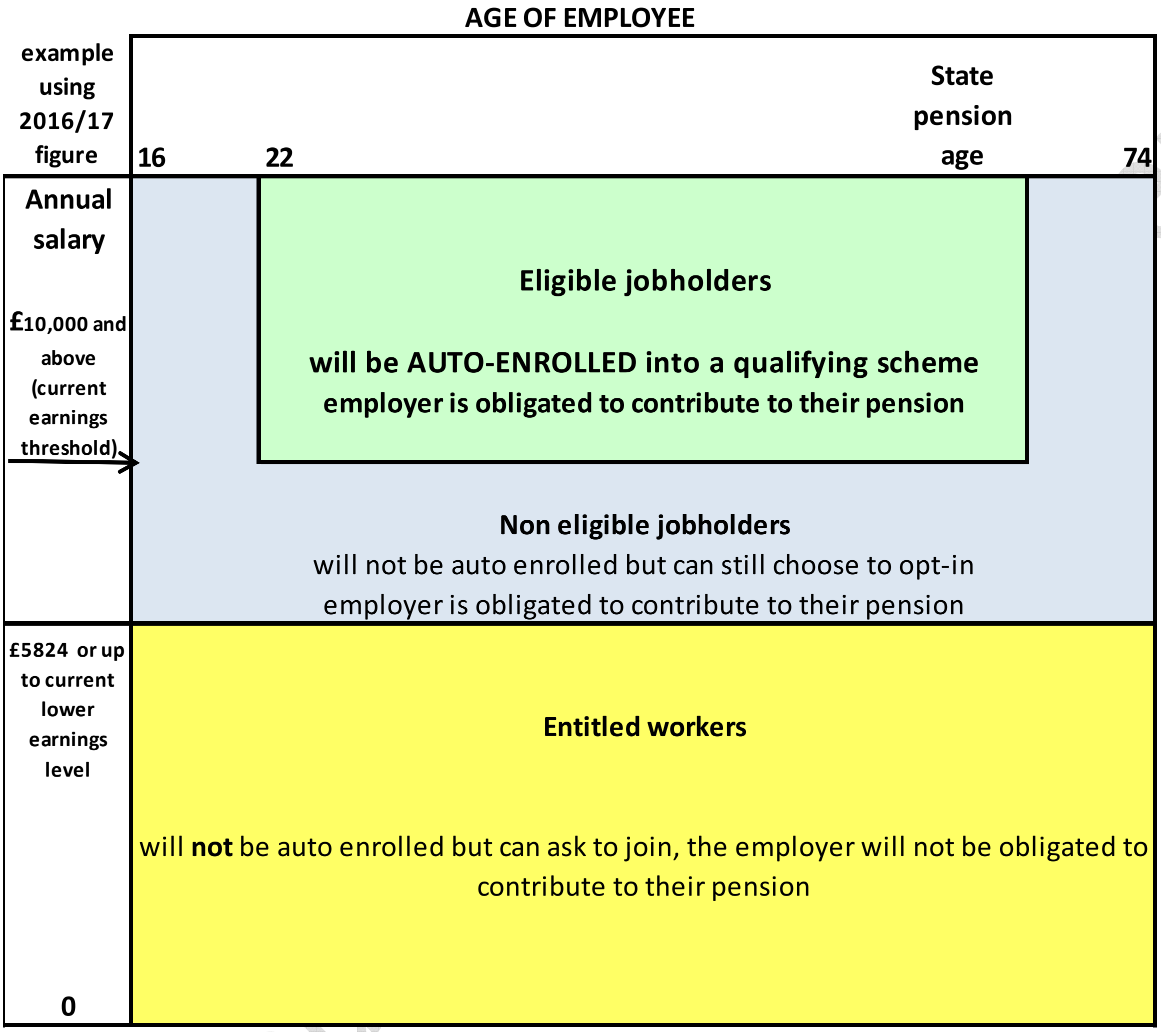
Early preparation is absolutely critical to ensure the changes required to systems, processes and communication material are identified and effectively addressed.

MBS Accounting can help smooth your path through this potential minefield of complex regulations and deliver a comprehensive AE solution. We can ensure you meet your obligations, mitigate as much cost and risk as possible to deliver a fully compliant workplace pension scheme in good time and thus avoid potential penalties.

Our initial AE meeting is completely free of charge, we will talk you through your obligations and ensure you are fully informed of the process and what it will mean for your business. Only then will you be in a position to decide how to proceed with this complex legislation.

Let's take a look now at the more detailed aspect of what is required to bring AE into your business.

The first stage is to assess your current workforce to determine the level of work that will be required along with potential costs that will be involved. The diagram below clearly shows the 3 main categories that your workforce is likely to fall into.



AE applies to all employees in the UK but not all of them have to be enrolled **automatically.**

You do **not** need to enrol an employee automatically if they:

- Are under the age of 22 or over the State Pension age
- Earn less than the earnings threshold, **currently** £10,000 per year (2016/17)
- Work outside of the UK
- Work as a sole trader with no employees
- Are already enrolled in a qualifying pension scheme – although if this is for a 2nd job you may still need to enrol them into a 2nd scheme.

Employees need to be treated differently depending on their employee category. An employee may fall into one of three categories; eligible jobholders, non-eligible jobholders, and entitled workers.

Eligible Jobholders

AE makes it compulsory for you to automatically enrol your eligible workers into a qualifying pension scheme. You must also make contributions into the scheme. Workers who do not want to join the scheme may choose to opt-out. It is important that you understand that your eligible jobholders are enrolled into a fully set up and running scheme even if you know of their intention to opt-out immediately after. Furthermore, it is worth noting that you must not advise, influence or become involved in any way in an employee's decision on whether to opt-out.

Non-Eligible Jobholders

Non-eligible jobholders will not be automatically enrolled into the pension scheme. However, they may ask to be enrolled. If this is the case, you must also contribute to the pension scheme. If a scheme is not yet set up then you will have 6 weeks in which to do so from the date your employee requested to join.

Entitled Workers

Entitled workers are not automatically enrolled. They may ask to **join the scheme**, which is different to being enrolled. You are not required by law (but may if you wish) make additional employer contributions to the scheme. As before, if a scheme is not yet set up you have 6 weeks in which to do so from the date your employee requested to join. Note that if all your employees (even if only one) fall into this category you will STILL have to carry out a full assessment at staging, provide the statutory communications and complete the Declaration of Compliance.

Directors

The rules on AE for Directors with micro-companies who have no other 'workers,' have now been clarified. We advise that you check out The Pensions Regulator web site at the link below and an extract from their website (correct as at June 2016) is provided for further guidance

www.thepensionsregulator.gov.uk/employers/What-if-I-dont-have-any-staff.aspx

Automatic enrolment duties don't apply when a company or individual are not considered an employer. You won't have any duties if you meet one of the following criteria:

- you're a sole director company, with no other staff
- your company has a number of directors, none of whom has an employment contract
- your company has a number of directors, only one of whom has an employment contract
- your company has ceased trading
- your company has gone into liquidation
- your company has been dissolved
- you no longer employ people in your home (cleaners, nannies, personal care assistants, etc)

Automatic enrolment duties will apply if more than one director has a contract of employment. You can find more information about your duties if you're a director in automatic enrolment enquiries.

If you are the only company director and run payroll just for yourself you do not need to be auto enrolled, but this may be worth exploring a little more. With the pension reforms that have now come into force there may be tax planning reasons for Directors to consider paying into a pension scheme. Talk to your current business advisor to find out more. Should you still choose to take the 'exemption' route as above, go to The Pensions Regulator web site and follow the instructions carefully. Make sure you have you 10 digit letter code from any communications you have received from The Pensions Regulator to hand.

Preparing for your staging date

A key part of preparation if you manage your payroll in-house is to ensure you have an AE compliant payroll software in place at the beginning of the tax year. Switching payroll software provider midyear can cause many complications. We are aware that some payroll software providers are avoiding AE altogether whilst others are offering varying degrees of assistance. Most of these come at an increased cost so it is important that you understand what is being offered by your current payroll software supplier sooner rather than later.

Another key part of preparation is seeking advice from an AE specialist such as MBS Accounting or your current accountant and/or IFA if you have one. As there will be a high number of employers staging at the same time it is critical that seeking advice is not left until the last minute. Advisors however cannot tell you exactly which pension scheme to choose for your business. They can however inform you of some of the different options available that are perhaps more suited to the smaller business. Here at MBS Accounting we have invested a significant amount of time in researching some of the top providers looking to support the smaller business. We can advise that there are some significant differences and making the wrong choice can impact enormously on your administrative resource. Ultimately though, you; the employer must make the final decision. As indicated earlier you must ensure that you understand the integration process between payroll supplier and your chosen pension provider. This will affect the amount of administrative time spent each month running your payroll.

Initial Assessment

One of the first duties to be completed is your initial assessment of the workforce. This provides you with an overview of which categories your workers are likely to fall into and provide information that is usually required when signing up with your chosen pension provider. You will then know who will have to be auto-enrolled into your scheme and who will have the option to join voluntarily.

Choosing a qualifying pension scheme

If you have an existing workplace pension scheme from previous legislation, then be aware that this is highly likely **not** to be AE compliant. The reason for this is that the new AE legislation makes it mandatory for your employees to be assessed and where required automatically joined into the scheme **without their signed agreement**. It is this requirement that is likely to make your existing scheme non-compliant with AE. It is imperative that you contact your existing provider to check this and if it does not comply to ask whether the scheme can be amended. If not, you will have to choose another 'qualifying' scheme to join. Remember, you need to plan significant time to have your scheme amended. Once you have chosen a pension provider and decided on your employer contribution levels, you must register your interest with them. It is worth noting that whilst some pension providers are obligated to accept every employer who applies to join their scheme, not all of them have to do this. With this in mind, our advice continues to be to source and sign up with your preferred pension provider **well in advance of your staging date.** If you don't act swiftly and your preferred choice is not one of the providers obligated to accept last minute applications, you may well be left out in the cold with little or no choice of provider. This could then cost you more in terms of finance and administrative time to manage your scheme ongoing. It is also worth noting that some pension schemes that were offering their AE schemes free of charge to employers have now introduced charges. Their reasoning is that with smaller businesses now staging and recognising that their expertise on payroll and auto-enrolment is likely to be reduced, will mean that the pension providers will require additional resources within their employer support departments. This is yet another reason to not leave applying for a scheme to the last minute.

Staging Date

An employer's staging date is the date they must begin to offer a qualifying workplace pension scheme. The staging date can be found by entering your PAYE number on the Pension Regulator website. Employers with a large number of employees began enrolling employees in 2012, with smaller companies due to enrol before October 2018. The staging date is based on the number of workers employed in April 2012. Any new employer setting up a PAYE scheme from April 2012 will stage between May 2017 and Feb 2018, the date of their first PAYE payment dictates their staging date in this case. If an employer has 2 or more PAYE reference numbers, the staging date of all employees is based on the scheme with the largest number of employees.

Postponement

This process enables you to **postpone** automatically enrolling employees into the pension scheme that you have signed up and ready to go, for a maximum of three months. This can be used for individual employees or for all employees at the point of 'staging'. This is not a simple solution to delay your staging obligations and we would advise that you avoid using the postponement process as a means of having more time to prepare. The Postponement process triggers an alternative administrative task with separate statutory communications; **<u>it does not delay your obligation to have a qualifying pension scheme signed up and ready to go at your staging date.</u>**

There are however, some very good reasons to use the postponement process which may save you time and money. This can be useful if your employees are not on a fixed salary.

Reasons to use the postponement process:

- To avoid enrolling employees who have a temporary rise in earnings such as overtime or a bonus
- To alter the enrolment of different categories of employees – usually used for larger employers
- To allow for workers with short term/seasonal contracts
- To delay enrolment for new employees on a 3 month initial trial

This particular area is quite complex and we would advise that you talk though with a professional any individual issues to ensure the postponement process is fully understood and is being applied correctly.

Communication

Communications is a vital employer responsibility when it comes to AE with various statutory notices required both initially and ongoing with the scheme. This is the reason that it is often considered the most challenging part of the AE process.

With AE, you need to write to each member of staff individually depending on their employee category. Eligible jobholders, non-eligible jobholders and entitled workers all have different rights, and so there are different letters to outline their entitlements.

Letters to eligible jobholders must state that they have been automatically enrolled and have the option to opt-out within the opt-out period. Non-eligible jobholders need to be told that they have the option to be enrolled, and that the employer must pay contributions. Entitled workers must be told that they can choose to join the pension scheme, however they are not treated the same as those who are enrolled.

If postponement is used, you must also write to the postponed employees to notify them. Furthermore, if you already have a qualifying pension scheme in place you still need to write to staff members who are in the scheme to let them know that they are not affected.

It is your responsibility as the employer to make sure the right information gets to the right member of staff at the right time. There are time limits in place to ensure that employees have sufficient time to gather information on AE so that they can make a well-informed decision. If you have to provide any communications directly, ensure you maintain copies and record the dates that the communications are handed to your employees.

Opting Out

Once an employee is enrolled they have a 30 day maximum opt-out period in which they may choose to opt-out and receive a full refund of any deductions made. If employees wish to leave the scheme after the opt-out period is expired, they can cease active membership in accordance with the scheme rules. It is illegal for you to encourage or advise an employee who is considering opting out. Furthermore, it is illegal to make any job offer on the basis that they will choose to opt-out of the pension scheme. Should an employee want to find out more about their scheme and entitlement, they should be encouraged to contact the pension provider directly. Most providers have very simple to understand web sites which will answer those frequently asked questions.

Compliance

You will be required to fill out a Declaration of Compliance within 5 months of your staging date. This allows The Pension Regulator (TPR) to monitor employers across the UK to ensure that they are complying with their employer duties.

TPR has now begun issuing penalties to small businesses for non-compliance. If an employer is not fulfilling their responsibilities by the due date, TPR will send them a compliance notice. This allows the employer to complete certain tasks within a specific time period to avoid penalties. If an employer fails to comply with their compliance notice or unpaid contributions notice, TPR may then issue a Penalty Notice, penalising the employer for their non-compliance. Persistent non-compliant employers could be forced to pay backdated employee contributions in addition to normal penalties.

Reassessment

You are required to automatically enrol any eligible worker who has previously opted-out, every three years. This is to recognise that the employees' financial situation may have changed and that paying into a pension scheme may be more affordable. You are also required to complete a re-declaration of compliance every three years for The Pension Regulator.

You can now see that AE is not just a one off occurrence. It is ongoing and requires employers to fulfil their responsibilities at every pay period. Let's now take a look at the tasks that need to be carried out going forward from your staging date.

Ongoing Responsibilities

As part of the ongoing process, there is much more administrative work to be completed other than to just make the pension deductions and contributions at each pay period. You will be responsible for managing opt-in and opt-out requests, monitoring new and existing employees, keeping records up to date, re-assessing employees every three years, and submit a contribution file to the pension provider after each pay period. A significant amount of this work can be managed by having a responsible payroll provider who is proficient in the new AE legislation. If you think we could help in this area, then talk to us and we would be happy to offer a quote for service.

Deductions & Contributions

As an employer, your first post staging date AE responsibility is to make employee deductions and employer contributions. You will have already spent some time deciding on your employee contribution rates in the preparation period and whilst choosing and signing up with your qualifying pension scheme. Note that different contribution rates can be used with different bands of employees. If you have managers or key workers that you wish to contribute more to, then this should be accommodated within your chosen pension scheme. Whatever your decision regarding contributions, they must be at or above the minimum amount set by law.

Minimum contributions are:

Date	Employer minimum contribution	Total minimum contribution
Employer's staging date to *05/04/18	1%	2% (including 1% staff contribution)
*06/04/18 — *05/04/19	2%	5% (including 3% staff contribution)
*06/04/19 onwards	3%	8% (including 5% staff contribution)

***The proposed dates are subject to Parliament approval**

Increasing the employee contributions and paying them on behalf of the employee could be considered as a new employee benefit. Discuss your requirements with your chosen provider before signing up. Your tax liability will be affected by this and should also be discussed with your business advisor / accountant.

Employee Opt-out and Opt-in Requests

After you have enrolled your eligible jobholders, they are entitled to opt-out of the pension scheme and have a full refund on any contributions that they have made. Employees can **only** opt-out within a specific period of time called the opt-out period. If employees wish to leave the scheme after this, they can cease active membership which is a different process which will be covered within your chosen pension scheme rules. If eligible jobholders opt-out within the specific period of time both you and they are entitled to a full refund of any contributions made. Some schemes may defer the first payment of contributions after staging to make it easier on both parties when handling any resulting opt-outs. Opting-out after the specified period may mean that contributions will not be refunded check with your chosen provider before signing up.

In contrast, non-eligible jobholders may choose to opt-in to your AE scheme. Although they are not required to be enrolled automatically, they are still entitled to both employer and employee pension contributions. Entitled workers may also wish to join the pension scheme. Although they would be making employee contributions, it is not required by law for an employer contribution to be made. You have a period of 6 weeks with which to enrol these employees into your scheme.

It is worth understanding that once an employee has chosen to contribute into a pension scheme (whether through the AE route or personal choice) they are entitled at any time to leave (cease membership). If they then choose to re-join again within 12 months of opting out, it is up to the employer to decide if they will allow this. This is to discourage a yoyo situation and thus avoid the obvious resulting administrative burden.

Monitoring New & Existing Employees

Another important responsibility is the continual monitoring of all employees. You must keep track of any changes to the ages and earnings of your employees. If an employee becomes an eligible jobholder you must automatically enrol them and communicate the necessary statutory information with them. You are reminded though that a spike in any employees earnings e.g. a bonus or irregular overtime that has pushed them over the qualifying earnings, may be better managed through the postponement process. As mentioned before if we are helping you with your payroll we would be happy to discuss this on an individual basis.

With every new employee you take on they must also be assessed. You must communicate the statutory notices according to their employee category, and automatically enrol them if they are an eligible jobholder. As previously mentioned, use of the postponement process may be more suited to allow for an initial 3 month trial of any new employee. Should this be your preferred route then you are advised to update your contract or terms of employment to reflect this as a condition of employment.

Finally, you must continually monitor employees who have opted out of a pension scheme. If employees opted out three years ago and are still eligible jobholders, they must be automatically re enrolled back into an AE pension scheme. This process repeats every 3 years. Additionally, every three years you must also complete a re-declaration of compliance.

Keep Records Up to Date

You must keep all your pension scheme records up to date including employee details, when each employee is enrolled, information about your pension scheme, and the contributions you are paying. These records must be kept for a minimum of 6 years.

Pension Contribution File

After each pay period, you must submit a contribution file to your pension provider. This allows the pension scheme to view employee information and a breakdown of all the contributions that are being made. Once you deduct contributions from your employees pay, you are obliged to pass these payments on to your pension provider no later than the 22nd of the next month.

The exact process of passing this information on is dependent on your chosen pension scheme and of course your payroll provider. The link between these two areas must be considered very carefully to make the monthly transmission of data as efficient as possible. You should make sure your payroll system is compatible with the chosen pension scheme and if you're unsure, check your payroll software or contact your payroll provider.

To reiterate: **AE is not just a pension issue**; it impacts HR, payroll and finance functions in many ways. The process for smaller businesses is likely to be resource intensive particularly if you do not have the spare competent administration capacity available to use.

Of course there will be financial costs involved with AE and you should choose your additional support carefully. MBS Accounting is happy to provide a bespoke AE support service matched to your personal requirements. Whether you want to complete AE yourself with our minimal support or handover as much as you can to us, we can help. All our AE services are independent and offered as a stand-alone service.

AE In-House support:

- Provide **one off** training to your administrative support to communicate the AE process and ensure they understand their statutory duties with AE.
- Assist with your AE internal communications in terms of staff team meeting to advise all employees of the changes and the choices available to them
- Provide 2 additional reviews to ensure your in-house AE plans are maintained

Payroll services: If you think now is a good time to consider outsourcing your payroll we can:

- Provide monthly payroll services (we no longer support weekly payroll) ensuring your continual AE obligations are met to the point of production of your monthly pension upload file. Our payroll service includes CIS and RTI filing where required, monthly payslips and all other payroll activities. We do not charge extra for annual returns.
- If you choose to join our 'preferred' pension provider we can additionally support your scheme by uploading your monthly pension contribution file directly and ensure all your statutory communications are delivered within the appropriate time frame – **providing we are kept up to date with all your employee contact details!**
- When choosing our 'preferred' pension provider we can help you set up your dedicated pension employer microsite so you always know what is going on.

AE planning support package which covers the following:

- Being a 'nominated contact with The Pensions Regulator to keep you on track
- Support with all activities through the initial planning up to your staging date
- Support with the development and deployment of your AE communication plan
- Advice on what to consider from an administrative perspective when choosing the pension scheme that is right for you
- Support with the initial pension set up process (including the employer microsite) where our 'preferred' pension provider is chosen

Full AE support package: covering the initial planning support AND payroll services

Quotes on all of the above are dependent on your employee numbers, current payroll process, level of support required and of course your chosen pension provider. If you think we could be of service and would like an estimate please do not hesitate to contact.

MBS Accounting – we're here to help!