



# Automatic enrolment: How to meet your duties as an employer

A guide for independent schools.



**By February 2018 every school will be required to automatically enrol certain workers into a qualifying pension scheme and contribute towards it. Are you ready to meet your automatic enrolment duties?**

The Government estimates that around 10 million people are not saving enough for their retirement and as a result is putting the onus on employers, through automatic enrolment, to help encourage their workers to save. Under the new legislation, by February 2018 every employer, regardless of size, will be required to automatically enrol certain workers into a pension scheme and make contributions towards it.

In April 2012, all employers were allocated a staging date based on the size of their workforce (the number of individuals in their PAYE scheme at 1st April 2012). Your staging date signals when your automatic enrolment duties commence.

Even if your school already operates a pension scheme, you will need to undertake some planning to prepare for your duties. There are a number of things you need to consider and decisions you need to make well ahead of your staging date – this article will guide you through them. You may also want to [download our 1-page, step-by-step guide to preparing for your automatic enrolment duties](#).

## Things to consider

There are a number of things you and your school need to consider, including:

### When do your duties commence (what is your staging date)?

A tool to determine your staging date is available at The Pensions Regulator’s website: [www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx](http://www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx).

The Pensions Regulator will write to you 12 months and 1 month before your staging date but the sooner you can identify the date, the sooner you can start planning.

### What are you required to pay for, and for who?

You will need to assess all of your workers for eligibility at each pay reference period:

Worker type	Age band	Earnings	Enrolment duty	Employer contributions
Eligible jobholders	22-SPA	£9,440+	Must be automatically enrolled	Yes
Non eligible workers	16-21 or SPA-74	£9,440+	Have a right to opt in	Yes
	16-74	Above £5,668 but below £9,440		
Entitled workers	16-74	Up to £5,668	Have a right to join	No

Once the assessment is complete, you will need to calculate the amount which needs to be paid for each eligible jobholder.

The statutory minimum for defined contribution schemes is calculated as follows:

1. Identify pensionable pay – this is total pay (includes salary, wages, commission, bonuses, overtime, statutory sick pay and statutory maternity, paternity and adoption pay).
2. Identify how much of total pay is within band earnings (£5,668 – £41,450).
3. Pay 3% of the pensionable pay within the band of earning.

#### Example:

An employer would be required to pay £10.83 per month (£129.96 per annum) for an eligible jobholder with total annual earnings of £10,000.

$$£10,000 - £5,668 = £4,332$$

$$£4,332 \times 3\% = £129.96 \text{ employer pension contribution.}$$

Employers can use a mechanism call ‘**phasing**’, which allows them to use lower % contributions over a 5 year transition period, during which employers would need to increase their contributions incrementally, as set out in the table overleaf:

	Staging date – 30 Sept 2017	01 Oct 2013 – 30 Sept 2018	From 1 Oct 2018
Employer minimum contribution	1%	2%	3%
Employee minimum contribution (including tax relief)	1%	3%	5%
Total minimum contribution	2%	5%	8%

There is a useful tool for calculating the required contribution for an employee at The Pensions Regulator's website: [www.thepensionsregulator.gov.uk/employers/tools/employer-contributions.aspx](http://www.thepensionsregulator.gov.uk/employers/tools/employer-contributions.aspx).

The total cost to you, in terms of contributions, will depend on the results of your assessment of your workers and their pay, so it is recommended that you undertake an initial assessment as soon as possible.

Whilst you have to assess your workforce based on total pay, you do not necessarily need to make contributions based on total pay. Instead, you may choose to use certification, which will allow you to use an alternative definition of salary such as basic pay.

Using this method, minimum total contributions would be as follows:

Set	Total contribution	Based on	Minimum employer contribution	Minimum employee contribution (incl tax relief)
1	9%	Basic pay	4%	5%
2	8%	Basic pay*	3%	5%
3	7%	All pay	3%	4%

\*Providing basic pay represents at least 85% of payroll

You will want your workplace benefits package to be attractive to high quality staff and support your retention strategy; however, it needs to be affordable for your school and you should therefore explore a number of approaches to identify the most appropriate model for you.

## What do you have to communicate, to who and when?

Communicating with employees about pension benefits can represent a challenge and it is one compounded by the introduction of automatic enrolment. Be fully aware of your duties to inform your employees about automatic enrolment. In addition to your mandatory responsibilities you may also want to consider what support you require to raise awareness of automatic enrolment across your workforce, to ensure that your employees fully understand the implications for them. This might include communications pre-staging date, at staging date and thereafter.

Your communications plan could comprise a combination of:

- online communications
- written communications
- group presentations
- one-to-one meetings

When you build your automatic enrolment strategy you should ensure that you are clear what support your workplace pension adviser as well as your payroll and pension supplier can give you.

What are the requirements of a suitable pension scheme and is your existing scheme fit for purpose?

A significant number of schools will intend to use their existing pension schemes for automatic enrolment purposes. This seems like the most obvious and simple solution, however it may not be that straightforward. There are a number of minimum requirements your automatic enrolment scheme will have to meet:

- It must be tax registered and established either as an occupational or personal pension type arrangement. And into this, minimum contributions must be paid.
- It must be open to all workers within the jobholder bracket of 16–74. So, for example, if you have an existing scheme where the rules state that employees cannot join until they reach age 21, then you will either need to amend the rules to remove this barrier or source a new supplier for workers between 16 and 20 and operate more than one scheme.
- Similarly, if your existing supplier is not willing to take on workers with lower earnings then you will need to source a new supplier who will.
- Your scheme must also be able to accept jobholders without them having to make any choices or sign any forms.

## What will a suitable automatic enrolment pension scheme cost?

There are a number of potential costs associated with automatic enrolment. Besides obvious costs related to increased employer contributions, there are likely to be other additional costs that you need to consider.

Depending on the size of your workforce, automatic enrolment could create a significant amount of additional administration, much of which can be minimised by good use of technology. Depending on the complexity of your pensions arrangements, frequency and number of payroll(s), there may also be other hidden costs in administering the changes. If you decide to use a payroll supplier for automatic enrolment compliance, there may be an explicit additional charge for that service, whereas software provided by some pension suppliers is available at no extra cost. There are also third party compliance solutions you could consider.

One method of reducing the costs of automatic enrolment is to set your scheme up on a salary exchange basis. By making payments through salary exchange (sometimes referred to as salary sacrifice), you and your employees can reduce the amount of National Insurance Contributions (NICs) that they pay.

## What are your ongoing compliance duties?

While it is compulsory for employers to automatically enrol their eligible jobholders, it is not compulsory for jobholders to stay in the scheme. It is essential that you have processes in place to handle any requests you may receive from jobholders who wish to either join or leave the scheme and that these requests are dealt both correctly and in a timely fashion.

All employers will also need to set a re-enrolment date – this will be an event every 3 years (usually from your staging date) where employers will have to re-enrol any jobholders who have previously left the scheme other than within the last 12 months.

You also have obligations to safeguard your employees' rights and must be mindful that even if your staging date is still some way off, these safeguarding duties apply now. The Pensions Regulator has the power to impose hefty penalties on any employer who fails to adhere to these rules.

You can find out more about safeguarding requirements at [www.thepensionsregulator.gov.uk/docs/pensions-reform-resource-employer-duties-and-safeguards-v3.pdf](http://www.thepensionsregulator.gov.uk/docs/pensions-reform-resource-employer-duties-and-safeguards-v3.pdf).

## What records do you have to keep and for how long?

The Pensions Regulator is also responsible for policing other employer duties, such as record-keeping. An audit trail of all your worker assessments, opt-ins and outs, as well as who is in the scheme and what payments have been made, will need to be kept. Most records will need to be maintained for at least 6 years.

There is no reason why you cannot use your existing business documentation, such as your payroll records, for the purpose of collecting and storing data. Many pension scheme suppliers will offer you access to their own middleware (some at a cost) and other third party middleware suppliers will provide record-keeping as part of their service.

If you outsource your administration then it's possible to authorise them to keep, preserve or provide records on your behalf but it will ultimately be your responsibility to ensure that these records are up to date and accurate.

## Decisions to make

The decisions you and your school will need to make include:

### Do you segment your workforce?

You may choose to offer different terms (e.g. contribution structures) for different parts of your workforce, for example job families, pay groups or pay thresholds. Here you may use a certified contribution basis for one group and the statutory minimum for another. This can be beneficial where there is a large contribution differential between the higher and lower paid employees, as can often be the case in the education sector.

### What postponement period, if any, will you apply?

It is advisable to consider use of a postponement period (of up to 3 months) to defer the point at which you commence automatic enrolment of workers, both at your staging date and beyond. As well as deferring the start date for paying contributions, postponement will allow you to align the assessment of new employees with your pay reference periods.

## What contributions will you make and will you use phasing?

As already discussed, the contributions you make will largely depend upon your available budget and whether or not you decide to segment your workforce.

Phasing can be an effective way to help manage the costs of your employer contributions into a defined contribution scheme.

If you decide to use certification, your minimum contributions can be phased for each tier.

## Do you have any individuals that need advice on protection?

You will need to ensure that workers who already have large pension funds are not put at risk of losing their protection against a reduced Lifetime Allowance (the limit on the value of payouts from their pension scheme(s)), and subsequently facing an additional tax charge.

The Lifetime Allowance for most people is £1.5 million in the tax year 2013–14 but is set to reduce to £1.25 million from April 2014.

If enrolling these individuals into the automatic enrolment pension scheme will result in their pension savings exceeding the Lifetime Allowance limit, there are two options:

1. The employee can apply for Fixed Protection 2014 or Individual Protection 2014 – the rules are complex so they should speak to an independent financial adviser or HMRC;
2. They can opt out of the automatic enrolment pension scheme.

**If employees already have protection then they will lose this if they are automatically enrolled and they do not opt out.**

## How will you deal with individuals who already have existing individual arrangements (e.g. SIPPs)?

You may well have some workers who already have other types of pension schemes, for example SIPPs. More often than not, such products cannot be adapted into a qualifying scheme and where this is the case, and they are assessed to be an eligible jobholder, you will need to enrol them into your automatic enrolment scheme.

These employees can opt out of the automatic enrolment scheme and continue with their existing arrangement undisturbed. However you cannot advise them to do so.

## Which compliance solution(s) will you use?

You will need a solution which has the functionality to meet the compliance duties associated with automatic enrolment. Such a system will need to:

- link with your payroll
- assess your workers, initially at your staging date and then at every pay period thereafter
- generate the necessary communications employers are required to issue to their workers
- maintain certain records for up to 6 years

## Benefits of an effective automatic enrolment scheme

Automatic enrolment is a positive step towards protecting the future of today's ageing population, and indeed that of our young people. However, with it come many challenges for employers – including education providers – not least of all the cost implications of changes in contributions, advice and the associated administrative requirements.

Schools must ensure cost-efficiency, given their responsibilities to their pupils, parents and governors. When it comes to automatic enrolment, planning well ahead of your staging date is the best advice. Having identified your staging date, conducting an assessment of your workforce will be the first step in determining how complex the initial automatic enrolment process will be and the likely cost impact.

You should consider your automatic enrolment pension scheme within the wider context of your school's overall employee benefits package, which, if well designed and implemented, will be a critical factor in the recruitment, retention and motivation of employees at all levels.

Your school is unique and you should develop a plan that is appropriate to you your workforce and protects your ambitions and objectives.

[Download our 1-page, step-by-step guide to preparing for your automatic enrolment duties.](#)

## Talk to us

For further information on the services we provide to schools, academies and other educational establishments, please call us on **0161 972 2480**, email us at [education@lucasfettes.co.uk](mailto:education@lucasfettes.co.uk) or visit [www.lucasfettes.co.uk/education](http://www.lucasfettes.co.uk/education).