

ISSUED

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THE CHEVIOT TRUST

# AUTO-ENROLMENT

NEW GOVERNMENT WORKPLACE PENSION SCHEMES

## Your essential guide as an employer

Auto-enrolment to workplace pensions are being introduced from 1 October 2012 for large employers with a staged introduction for medium and small employers up to August 2016. This note is based on our interpretation of the current proposals and may be subject to change.

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## 1. WHAT ARE WORKPLACE PENSION SCHEMES AND WHY ARE THEY BEING INTRODUCED?

Workplace pension schemes are being introduced to encourage all employees to save for their own retirement by making sure that:

- all employees have an appropriate or **qualifying scheme** available to them.
- enrolment is automatic for employees over age 22.
- a minimum Employer contribution of at least 3% is paid.

A **qualifying scheme** can be a pension scheme of the employer's choosing, subject to meeting certain criteria, or employers can elect to enrol into the government sponsored scheme known as The National Employment Savings Trust (NEST). The Cheviot Money Purchase Scheme will be a qualifying scheme and, depending on your current contribution rates, you may only need to make limited changes to your current arrangements to incorporate the **auto-enrolment** requirements.

## 2. WHAT IS AUTO ENROLMENT?

**Auto-enrolment** is the process by which employees must be enrolled into NEST or a **qualifying scheme**. As an employer, you will need to put into place procedures to ensure that all employees who are 22 years or over and who have completed three months' employment are automatically enrolled into NEST or a **qualifying scheme**. Members cannot be required to complete an application form. You, as employer, will need to provide limited information to the pension provider. Your payroll system will need to be amended to ensure this happens.

## 3. HOW MUCH WILL IT COST ME AS AN EMPLOYER?

There are a number of different ways you can structure the contributions and your decision is likely to be influenced by your current arrangements, the take up of those arrangements and the average salary level of employees. You may also decide to contribute differently in respect of those members who are part of the **auto-enrolment** process to those who actively decided to join your current arrangements.

### MINIMUM CONTRIBUTIONS

Employers will be required to make minimum monthly contributions of 3% of an employee's pay between £7,475 per year up to about £44,000 per year in 2011/12 ("band earnings"). Band earnings will change in the future.

The minimum total contribution is 8% of salary that falls between these band earnings. If the employer contributes the minimum of 3%, the balance of 5% will have to be met by the employee. If the employer decides to contribute more, the employee will be required to contribute less. These contributions are being phased in so you won't need to pay full contributions until **October 2017**.

### CONTRIBUTIONS TO CHEVIOT

To meet your obligations in respect of workplace pensions, contributions to Cheviot can either be at the minimum level, or we are introducing flexibility so you may choose to structure your contributions differently, perhaps in line with your current arrangements or to make your payroll processes easier. The contributions could be:

- a total minimum contribution of 8% of band earnings, with 3% coming from the employer, (see Minimum Contributions above) – or
- a total minimum contribution of 9% of **pensionable pay** as defined by the scheme (this would usually be basic pay and exclude bonuses, overtime etc) with the employer paying at least 4% - or
- a total minimum contribution of 7% of **total pay** with the employer paying at least 3%. Total pay includes things such as a contractual cash car allowance, bonuses, overtime etc.

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#### 4. WHEN WILL THIS AFFECT ME AS AN EMPLOYER?

The Department for Work and Pensions has opted for a staggered introduction of membership and contributions. If you have less than five hundred employees, your **staging date** will not be before **2014**. More information is available on our website: [www.cheviottrust.com](http://www.cheviottrust.com)

#### 5. HOW ARE CONTRIBUTIONS BEING PHASED IN?

Depending on when your **staging date** is:

Duration	Employer minimum contribution	Total minimum contribution
Employer's staging date to 30 September 2016	1%	2%
1 October 2016 to 30 September 2017	2%	5%
1 October 2017 onwards	3%	8%

The minimum contributions to a **qualifying scheme** as set out in section 3 will reflect this phasing but the details have not yet been finalised.

#### 6. WHICH EMPLOYERS ARE AFFECTED?

**All** employers in the UK are affected; they will have to offer the minimum contributions as a term and condition of employment to their employees from their **staging date**. Employers will also need to offer it to agency employees who complete 12 weeks' service.

#### 7. CAN I AS AN EMPLOYER OPT OUT?

You can only opt out of The National Employment Savings Trust (NEST) regime as employer if you have a **qualifying scheme** in place, such as the Cheviot Money Purchase Scheme, at your **staging date**.

#### 8. CAN AN EMPLOYEE OPT OUT OF THE QUALIFYING SCHEME OR NEST (WHICHEVER IS OFFERED)?

Yes, an employee can opt out and will have a short time period from the initial invitation to do so, currently one month. If the individual is still with the same employer three years later, then the scheme administrator has to automatically re-enrol that individual into the scheme. The opting out process will need to be repeated by the individual if they do not want to join the scheme. This will be repeated every three years.

#### 9. HOW DO I ENSURE THAT MY CURRENT PENSION SCHEME/PROVIDER WILL BE A QUALIFYING SCHEME?

The Cheviot Money Purchase Scheme, to which you currently contribute or have contributed in the past on behalf of your employees, will be a **qualifying scheme**.



## 10. WHAT HAPPENS IF I DON'T COMPLY WITH MY OBLIGATIONS AS EMPLOYER?

The new reforms place legal obligations on you as employer. If you don't comply with those obligations, the Pensions Regulator will enforce the requirements and this may lead to the employer being faced with penalties.

## 11. WHAT SHOULD I AS AN EMPLOYER DO NEXT TO MAKE SURE I COMPLY WITH THE NEW REQUIREMENTS?

So that we can provide more help and support on your obligations as an employer, and which form of contributions would suit you best, please complete and return the enclosed questionnaire. We will then contact you personally in due course.

## 12. WHERE CAN I OBTAIN FURTHER INFORMATION?

You can contact the Pensions Administration Manager, Samantha Chandler, at the Cheviot Trust by email [schandler@cheviottrust.com](mailto:schandler@cheviottrust.com) or by telephone 01702 361321. We will continue to keep you updated with relevant developments via email and our website.

The Pensions Regulator has also published its main guidance for employers. The guidance is divided into nine sections and is available at <http://www.thepensionsregulator.gov.uk/pensions-reform/detailed-guidance.aspx>. As all the guidance runs to about 180 pages, the following summaries are useful and can be accessed via the search box on the Regulator's website:

**The different types of worker** - a diagram of the different categories of worker and the criteria for each category.

**Employer duties and safeguards** - at-a-glance summary of the duties and safeguards.

**Information to workers** - summary of information requirements in quick-reference table format.

The Pensions Regulator emphasises that the guidance may change.



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