

## Auto Enrolment / NEST - A Summary

The regulations define three sets of workers who need to be considered:-

Eligible Job Holders - Aged between 22 and State Pension Age and earning over £8,105. For these people employers need to automatically enrol them into the pension scheme and both employer and employee will need to pay the minimum required contributions.

Non Eligible Job Holders – Aged between 16 and 75 and earning over £5,564. For these people, if they ask to join the employer must let them and must make minimum contributions for them but they do not need to be automatically included.

Entitled Workers – Aged between 16 and 75 earning less than £5,564. For these people, the employer must facilitate access to the scheme if they ask to join but there is no requirement for the employer to contribute.

Note the above salaries are 2012/13 figures and will be revised upwards year by year.

From the appropriate staging date (see table below), the employer and employees will need to make contributions which between them will eventually total 8% of qualifying earnings. Qualifying earnings are those which fall between £5,564 and £42,475. Qualifying earnings include but are not limited to Basic Salary, Bonus, Commissions, Overtime, Benefits in Kind, Statutory Sick Pay and Statutory Maternity Pay.

The contributions will be phased in over a period of time as follows:-

<u>Date</u>	<u>Total</u>	<u>Of which the Employer must pay</u>
Staging Date to September 2017	2%	1%
October 2017 to September 2018	5%	2%
October 2018 onwards	8%	3%

Employers may choose to pay as much of the required total as they wish subject to them at least paying the minimum 1%/2%/3% as appropriate. Anything the employer chooses not to pay over the minimum must be paid by the employee and employers must have an agreement in place to make deductions from employee's salaries. Employees get tax relief on their contribution as usual which will be deducted from net pay.

The 8% of qualifying earnings contribution is the one commonly quoted when Auto-Enrolment is discussed and is the basis for the NEST scheme which in effect is the default position for employers. However some employers may choose to put in place an alternative qualifying scheme and can choose to use alternative definitions of earnings if it is more convenient to do so. The options are as follows:-

1. 9% of pensionable salary - where pensionable salary is defined as at least basic pay starting from the first £1 of earnings – in this case, the contributions for employers are increased to 2%/3%/4%
2. 8% of pensionable salary - where pensionable salary is defined as at least basic pay starting from the first £1 of earnings and where the employer can certify that this formula means that 85% of total payroll is pensionable. Total payroll includes all of the elements referred to above - in this case employer contributions are 1%/2%/3%
3. 7% of pensionable salary - where salary is defined total earnings from £1 upwards (total earnings includes all of the elements of qualifying earnings shown above) – in this case the employer contributions are as shown above but total does not exceed 7%

The decision as to which approach to take will depend upon the employer, the profile of their workforce and their remuneration structure and is not necessarily straightforward. The wrong choice may increase the admin burden on the employer considerably.

Enrolment must take place within 3 months of an individual becoming eligible. Employees then have the ability to opt out; if they do opt out the employer is required to record this and 3 years later automatically re-enrol them. The DWP will be monitoring opt-out rates at a company level and if they believe any encouragement to opt out has occurred employers can be subjected to heavy penalties. This approach has been deliberately designed to be more aggressive than the monitoring of the introduction of Stakeholder pensions.

Employers will receive notification 12 months prior to the staging date that applies to them and then regularly thereafter to remind them that they need to put an arrangement in place. NEST is designed to be a simple structure that will allow all employers access regardless of the profile of their workforce and we envisage a large number of employers will opt for this approach. We are currently discussing how we are going to approach Auto-Enrolment for those employers with whom we have a relationship and the services we can offer. A key element of that service will include the payroll provider in use (if any) and the pension scheme product providers themselves, some of whom are more geared up for this than others. A number of providers are working on arrangements which will link into NEST for an element of the workforce whilst facilitating access to a richer service for those employees who would recognise the value of advice and options.

At the present time there is a push from some elements of the financial services industry to get employers to put in place pension schemes in advance of their requirement to do so and in particular in advance of the end of 2012 whilst insurance companies are still able to establish schemes on a commission paying basis. Whilst this approach may initially appear attractive as it moves the set up and advice costs from employer to employee, in the longer term we don't believe this is a sustainable position except in limited circumstances.

Employer (by PAYE scheme size or other description) Staging date	Date
800+	Pre 01-11-2013
500 – 799	01-Nov-13
350 – 499	01-Jan-14
250 – 349	01-Feb-14
160 – 249	01-Apr-14
90 – 159	01-May-14
62 – 89	01-Jul-14
61	01-Aug-14
60	01-Oct-14
59	01-Nov-14
58	01-Jan-15
54 – 57	01-Mar-15
50 – 53	01-Apr-15
Less than 30 with the last 2 characters in their PAYE reference numbers 92, A1-A9, B1-B9, AA-AZ, BA-BW, M1-M9, MA-MZ, Z1-Z9, ZA-ZZ, OA-OZ, 1A-1Z or 2A-2Z	01-Jun-15
Less than 30 with the last 2 characters in their PAYE reference numbers BX	01-Jul-15
40 – 49 01-Aug-15	01-Aug-15
Less than 30 with the last 2 characters in their PAYE reference numbers BY 01-Sep-15	01-Sep-15
30 – 39	01-Oct-15
Less than 30 with the last 2 characters in their PAYE reference numbers BZ	01-Nov-15
Less than 30 with the last 2 characters in their PAYE reference numbers 02-04, C1-C9, D1-D9, CA-CZ or DA-DZ	01-Jan-16
Less than 30 with the last 2 characters in their PAYE reference numbers 00, 05-07, E1-E9 or EA-EZ	01-Feb-16
Less than 30 with the last 2 characters in their PAYE reference numbers 01, 08-11, F1-F9, G1-G9, FA-FZ or GA-GZ	01-Mar-16
Less than 30 with the last 2 characters in their PAYE reference numbers 12-16, 3A-3Z, H1-H9 or HA-HZ	01-Apr-16
Less than 30 with the last 2 characters in their PAYE reference numbers 11-19 or IA-IZ	01-May-16
Less than 30 with the last 2 characters in their PAYE reference numbers 17-22, 4A-4Z, J1-J9 or JA-JZ	01-Jun-16
Less than 30 with the last 2 characters in their PAYE reference numbers 23-29, 5A-5Z, K1-K9 or KA-KZ	01-Jul-16



Hammond Raggett & Company Ltd, Chartered Financial Planners  
 2<sup>nd</sup> Floor, Eagle Buildings, 64 Cross Street, Manchester, M2 4JQ  
 Tel: 0161 834 2222 E: enquiries@hammondraggett.co.uk  
 Authorised and Regulated by the Financial Services Authority

