

New rules for pension saving made simple

What are the new rules?

Did you know?

People are living longer. A man aged 65 today is expected to live until he is 86 and a woman until she is age 89.

In 1901 there were 10 working people for every pensioner in the UK. By 2010 this had reduced to 3 workers and by 2050 it's estimated there will only be 2 workers for every pensioner.

Even though people are living longer the numbers saving for a pension are reducing.

Estimates suggest that as many as seven million people are not saving for their retirement.

Membership of workplace pension schemes has fallen to its lowest level in 60 years.

The Government hopes the new rules for pension saving will go some way towards helping workers improve their financial security in retirement.



Why new rules?

Millions of people in the UK are not saving enough to have the income they are likely to want or need in retirement. And many are not saving anything at all.

To increase the numbers of people saving for retirement, the Government has decided to make it a requirement for employers like you to pay into a pension for most of your employees. Unless your employee chooses to opt out, he or she will have to pay pension contributions too.

Automatic Enrolment

The new rules for pension saving are often referred to as **Automatic Enrolment** because as an employer you will have to automatically enrol much of your workforce into a pension scheme.

Of course your employee can choose to opt out of this saving but you will have to revisit this decision at regular intervals following the first opt out.

The NAPF is delighted to be working in partnership with JLT Benefit Solutions Ltd to provide you with guidance on the new rules for pension saving in the workplace. This leaflet is the first in a series of leaflets to be published over the coming months. It covers key facts about the new rules. Later leaflets will build on this information and help you implement **Automatic Enrolment** in your workplace. Once a leaflet has been published it will also be available for download from the website www.napf.co.uk.

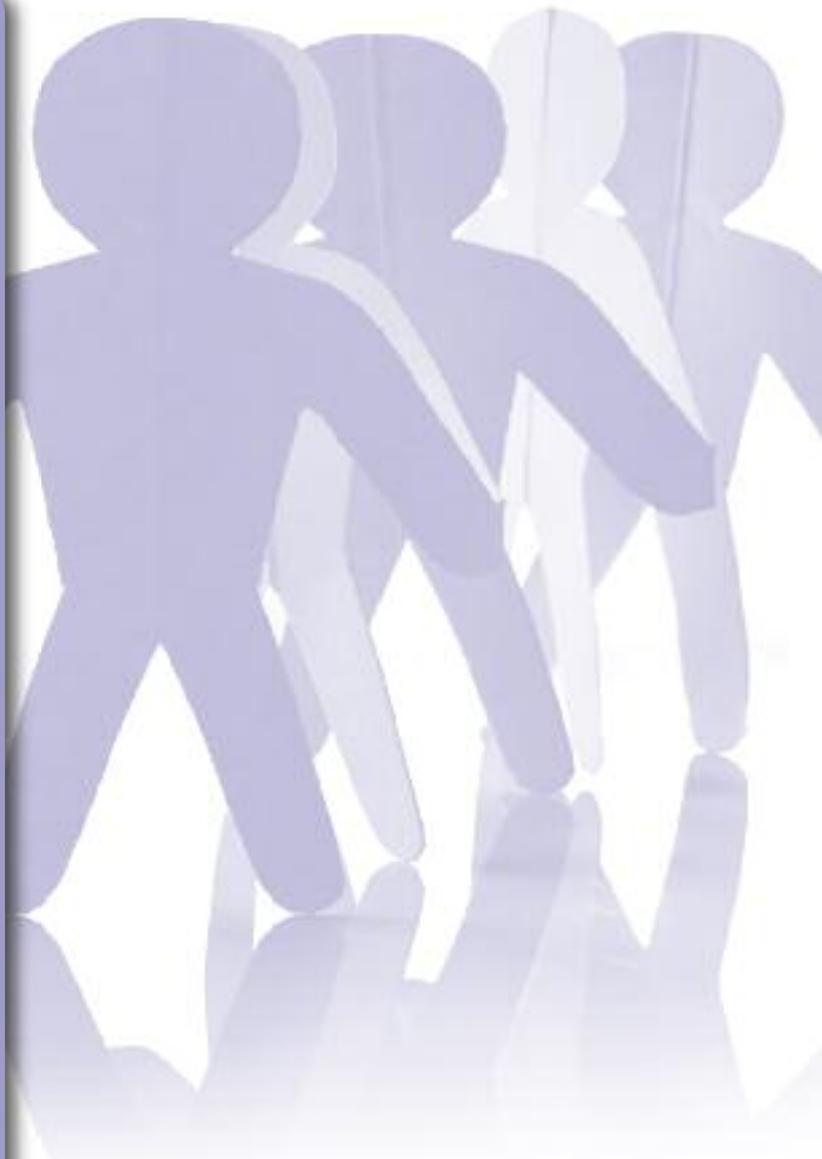
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Box 1

PAYE scheme size	Date
120,000 or more	1- 10-2012
50,000-119,999	1- 11-2012
30,000-49,999	1- 01-2013
20,000-29,999	1- 02-2013
10,000-19,999	1- 03-2013
6,000-9,999	1- 04-2013
4,100-5,999	1- 05-2013
4,000-4,099	1- 06-2013
3,000-3,999	1- 07-2013
2,000-2,999	1- 08-2013
1,250-1,999	1- 09-2013
800-1,249	1- 10-2013
500-799	1- 11-2013
350-499	1- 01-2014
250-349	1- 02-2014
50 to 249	1-04-2014 to 1-04-2015 (inclusive)
30 to 49	1-08-2015 to 1-10-2015 (inclusive)
Fewer than 30	1-01-2016 to 1-04-2017 (inclusive)



When do I have to start enrolling my employees?

Staging Dates

It depends on your size as an employer. Larger employers (with over 50,000 employees) have to start in 2012 and then gradually over a number of years smaller employers will begin.

A series of dates have been devised (known as **Staging Dates**) to organise when you need to start enrolling your employees into a pension.

Dates are allocated using the number of employees on your Pay-as-you-earn (PAYE) records (known as a **PAYE scheme**) held on 1 April 2012. **Box 1** shows the **Staging Dates** for employers that have PAYE schemes.

The Pensions Regulator (the organisation responsible for overseeing pension schemes in the UK) will also write to you at least twelve months before you have to start enrolling your employees.

You also have to register with The Pensions Regulator no later than four months after your **Staging Date**.

Multiple PAYE schemes or employers

Most employers will only have one **PAYE scheme**. If you only have one, your **Staging Date** will be determined by the size of your **PAYE scheme**.

If you are a large employer you may have more than one **PAYE scheme**, for example, each part of your business may have its own **PAYE scheme**. In these circumstances you will use the largest **PAYE scheme** to determine your **Staging Date**.

Where you are part of a group of companies you may first need to work out who holds the contracts of service/employment before you can identify the right **PAYE scheme**. For example, it's possible one company holds all the contracts of employment/service even though employees work for more than one employer in the group. While each company may have its own **PAYE scheme**, the **Staging Date** for **all** the employers in the group will be determined by the company that holds the contracts.

Alternatively, it's possible in a group of companies that each employer will hold its own contracts of employment/service and have its own **PAYE scheme**. In these circumstances **Staging Dates** will be determined according to each individual employer's own **PAYE scheme**.

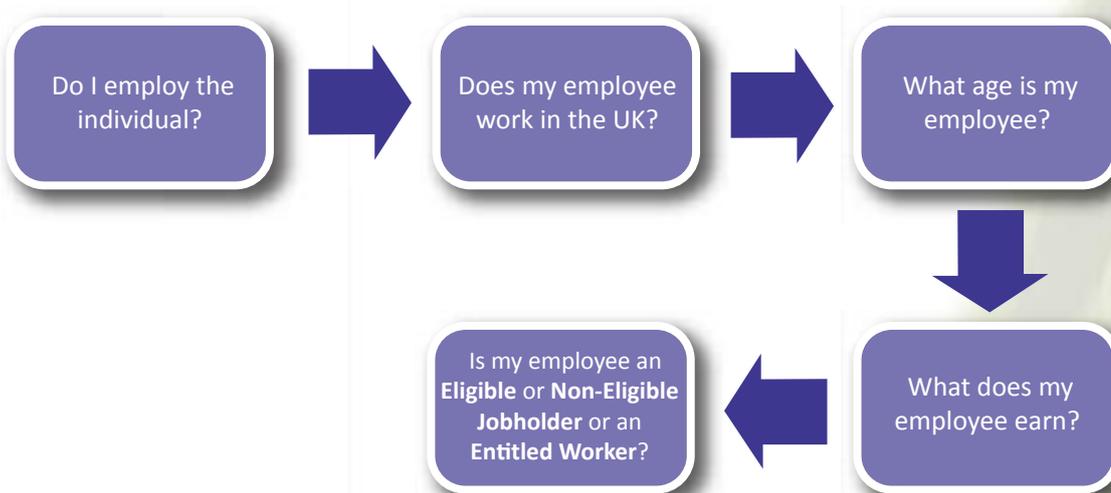
If you don't have a **PAYE scheme** you will need to apply the new rules for pension saving from 1 April 2017. New employers, for example, those establishing their business between April 2012 and April 2013 don't have to apply the new rules until 1 May 2017. Businesses that are established after April 2013 have even later **Staging Dates**.

If you have a **Staging Date** in 2012 you can choose to bring the start date forward up to 1 July 2012 and if your **Staging Date** is in 2013 or later, you can bring forward your date up to 1 October 2012.

If you do decide to bring your **Staging Date** forward, you have to use the earlier date for all your employees and you also need to tell The Pensions Regulator that you have changed your **Staging Date**, at least one calendar month before the new date.

How do I know which employees to enrol into a pension?

The diagram below shows how you establish the answer to this question.



Let's look at each question in more detail. First you need to find out if you employ the individual or if he or she is someone else's employee.

To do this you may need to distinguish between workers who have a contract **of** service/employment (employees and other workers) with you and those who work under a contract **for** services (independent contractors). You can disregard self-employed people.

When it comes to identifying who is a worker and who is an independent contractor the new rules for pension saving use the same criteria as the Employment Rights Act 1996 and the laws governing the Minimum Wage and Working Time. There are also some helpful questions that have been used in cases that have gone to the Employment Appeals Tribunal. (See **Box 2**).

Box 2

Do I employ this person?

Personal service: Under the contract of service/ employment does the individual undertake to personally perform work or services for you? If the answer is yes, they are a worker.

Mutuality of obligation: For an individual to be classed as a worker there ought to be evidence of mutual obligation between the individual and you the 'employer' in the contract of service/employment.

Business undertaking: Under the contract you have with someone are you classed as a customer of the business carried out by the individual? If the answer is yes, the individual is an independent contractor.

Other factors that may be relevant are:

- the degree of control exercised by you the employer;
- the exclusivity of the arrangement and its typical duration;
- the method of payment;
- which party supplied the equipment used; and
- the level of risk undertaken by the worker.

It is also worth noting that the classification of an individual as employed or self-employed by HM Revenue and Customs (HMRC) is not conclusive when ascertaining the individual's status for automatic enrolment.

Next you need to establish which of your employees work in the UK. While the new rules apply to employees who only work in the UK, if, for example, your employees work abroad, offshore or only part of the time in the UK, it's possible you may not have to enrol them into a pension scheme. If you have workers who don't spend all their time working in the UK you may need to seek specialist advice. A later leaflet issued in this series of leaflets will help you on this subject.

Once you have identified your UK workers you will need to check each employee's age and what he or she earns because these two factors influence how you will categorise each person to see if they have to be automatically enrolled

into a pension scheme. Each of your employees will fall into one of three categories; **Eligible Jobholder**, **Non-Eligible Jobholder** or **Entitled Worker**.

- **Eligible Jobholder** - has to be enrolled into a pension scheme and as the employer you have to pay pension contributions.
- **Non-Eligible Jobholder** - has the right to ask to be enrolled into a pension scheme and if enrolled as the employer you have to pay pensions contributions.
- **Entitled Worker** - has the right to ask to be enrolled into a pension scheme but you don't have to pay pension contributions.

Box 3 shows the criteria you will use to determine how to use the employee's age and earnings to find the right category.

Earnings	Age (inclusive)		
	16-21	22-State Pension Age	SPA-74
Individuals earning at least £8,105 a year (2012/13 figures)	Non-Eligible Jobholder	Eligible Jobholder	Non-Eligible Jobholder
Individuals earning between £5,564 and £8,105 a year (2012/13 figures)	Non-Eligible Jobholder		
Individuals earning under £5,564 a year (2012/2013 figures)	Entitled Worker		

Once you have identified who are your workers and determined which category to put them into, you have few on-going responsibilities. **Box 4** sets out what you are expected to do.

Box 4	
Category	What you as an employer have to do
Eligible Jobholder	<ul style="list-style-type: none"> • Provide information about the new rules for pension saving • Automatically enrol the employee into a pension scheme • Make on-going contributions • Process any opt out notice • If the employee chooses to opt out automatically re-enrol them approximately every three years • Keep records of the automatic enrolment process
Non-Eligible Jobholder	<ul style="list-style-type: none"> • Provide information about the new rules for pension saving • If necessary, arrange pension scheme membership and pay contributions • Process opt outs • Keep records
Entitled Worker	<ul style="list-style-type: none"> • Provide information about the new rules for pension saving • If necessary, arrange pension scheme membership and provide a payroll deduction facility for payment of employee contributions

How do I choose a pension scheme to automatically enrol my employees into?

If you already run a workplace pension scheme you may be able to use this scheme to fulfil the requirement to automatically enrol employees into pension saving. There are rules to be followed if you want to do this. (These rules are explained in **Leaflet 2. What do I need to think about?**).

If you do not have a pension scheme or you don't want to use it for some or all of your employees you can enrol your employees into the National Employment Savings Trust (NEST), a pension savings scheme set up by the Government at the same time as automatic enrolment is being introduced. NEST is a low-cost default scheme with a public service obligation to accept all employers that apply to use it. It is, however, only one of a number of options available to employers as some private organisations have started to establish alternatives to NEST.

Do I have to implement the new rules for pension saving?

The new rules allow you to postpone automatic enrolment for up to three months. If you choose to postpone you must tell your employees in writing. These workers have the right to opt into a workplace pension during the period of **Postponement**, begin saving and receive pension contributions from you and tax relief from the Government. **Postponement**, sometimes referred to as a **Waiting Period** is considered in **Leaflet 3 What are my pension scheme options?**

Although The Pensions Regulator will write to you at least 12 months before your **Staging Date**, for most organisations receipt of this letter should be a last resort. Making preparations to implement the new rules for pension saving later than 12 months before your **Staging Date** carries the risk of you not being ready in time to implement the new rules. Failure to comply in time could result in a fine or other sanction being imposed on you by The Pensions Regulator.

What do I need to do now?

1. *Determine my Staging Date*
2. *Identify my workers in the UK*
3. *Categorise my UK workers i.e. **Eligible or Non-Eligible Jobholders or Entitled Workers***
4. *Think about what pension scheme(s) I am going to use to enrol my employees into*
5. *Read **Leaflet 2 - What do I need to think about?***

As we produce more leaflets in this series you will gain a greater insight into what you are expected to do. Of course, one of the first questions you will be asking is "How much will this cost me?" and we consider this in **Leaflet 2 - What do I need to think about?**

Other sources of information

There is a variety of information about the new rules for pension saving on the following websites

Direct Gov - www.direct.gov.uk

The Department for Work and Pensions - www.dwp.gov.uk

The Pensions Regulator - www.thepensionsregulator.gov.uk

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