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Securing the future of pensions

New rules for pension saving made simple

Will I need to change how I do things?

The first leaflet in the 'new rules for pension saving made simple' series, **What are the new rules?** explained you have to categorise your employees before you can decide if you should enrol them automatically into a pension scheme. (The categories are shown again in **Box 1** below).

This leaflet concentrates on key areas where the new rules for pension saving might impact upon your internal processes and procedures and highlights where you might need to make changes.

Box 1 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**		

Remember there are three categories of employees

- **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.

To establish which of your employees is an **Eligible** or **Non-eligible Jobholder** or an **Entitled Worker** you first have to confirm:

- if you are actually their employer;
- each person's age;
- they work in the UK (if you have employees who don't work all the time in the UK you need to seek guidance because there are a range of circumstances which may apply, each with different rules); and
- if your employee does have **Qualifying Earnings** in a **Relevant Pay Reference Period**, how much these are.

Qualifying Earnings

The new rules for pension saving define earnings as sums which you pay to the employee in connection with his or her employment.

- Salary, wages, commission, bonuses and overtime.
- Statutory sick and maternity/paternity/adoption pay.

'**Benefits in kind**' (known as P11D benefits), for example, car and fuel, and tips and gratuities do not have to be included.

(In 2012/2013 **Qualifying Earnings** are earnings between £5,564 and £42,475 inclusive)

And you have to check all the items above at specific times. For example:

- at your **Staging Date**; or
- when different events occur (eg when you employ someone new or an existing employee becomes old enough to be included under the new rules); and
- broadly, every three years when you review those employees who have previously decided to **Opt-out** of pension saving.

Comparing earnings

The most difficult item for you to establish is likely to be your employee's **Qualifying Earnings** especially if these have a tendency to vary. **Diagram 1** shows the steps you need to take to establish **Qualifying Earnings**.

Diagram 1

Step 1. Identify the **Relevant Pay Reference Period** → **Step 2.** Identify what pay is due to be paid in **Step 1**. → **Step 3.** Compare what is due to be paid against the earnings triggers described in (**Box 1**)

Remember when you are following these three steps:

- Pay in the **Relevant Pay Reference Period** is the pay that is due to be paid regardless of the pay period it relates to. For example, if employees are due to be paid their February salary, even though this includes commission earned in January, the **Relevant Pay Reference Period** is still February.
- **Box 1** on Page 1 of this leaflet shows how **Qualifying Earnings** due to be paid in the **Relevant Pay Reference Period** are assessed to establish which category your employee falls into.

Once you have allocated categories to your employees, by assessing their earnings, you will know if you have to enrol them automatically into pension saving.

Box 2

Pay Reference Period

An employee's **Pay Reference Period** is one week (or the period for which the employee receives their regular wage, if longer.) This will be the same period of time covered by your payroll.

For example, you may pay your employees on 25th January but the **Reference Pay Period** will be 31 days ie the whole month of January.

The **Relevant Pay Reference Period** is the **Pay Reference Period** which includes the date on which you are assessing your employee.

Postponing the introduction of the new pension saving rules

You can choose to postpone the start of **Automatic Enrolment** for up to three months from one or more of the dates shown in **Box 3**. You might want to consider postponing start date(s), for example, if you need extra time to integrate the new rules for pension saving into your payroll processes.

Box 3

Dates which can be postponed

- **Staging Date** (explained in **Leaflet 1 - What are the new rules?**)
- The date an employee meets the criteria to be an **Eligible Jobholder**, if this is after your **Staging Date**.
- The first day of employment in the case of new employees joining after your **Staging Date**.

The period of time you delay is known as the **Postponement Period**. The last day of the **Postponement Period** is known as the **Deferral Date** and becomes the date you have to assess whether your employee is an **Eligible** or **Non-eligible Jobholder** or an **Entitled Worker**.

Once an employee meets the criteria for an **Eligible Jobholder** on the **Deferral Date**, he or she must be automatically enrolled on that date as you can't postpone it any further. You can of course have multiple **Deferral Dates** if you decide to delay more than one of the start dates that can be postponed.

Postponing the new rules in DB schemes

In addition to the three month **Postponement Period**, if you intend to use a **DB** scheme to satisfy the new rules on pension saving, you can choose to postpone the start dates shown in **Box 3**, up to 2017, but **only** in the case of **Eligible Jobholders**.

You also need to recognise if you postpone any **Automatic Enrolment** start dates, employees still have the right choose to save in a pension arrangement during the **Postponement Period** and you will have to pay employer contributions if this would normally apply had you not postponed the date.

Actions if you postpone

1. You need to choose which date(s) you want to postpone

2. If you choose to postpone you need to decide if you are postponing for everyone or just specific groups of employees

3. If you choose to postpone you have to issue a notice to each of the employees involved. Where there are different groups of employees, each employee in each group needs to receive its own notice

4. The notice has to be given within one month following the day after the original date you have postponed.

5. The content of your notice will vary according to whether the employee is an **Eligible** or **Non-eligible Jobholder** or an **Entitled Worker**. Seek advice about the content of your notice or visit **www.the pensionregulator.gov.uk**

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Will I need to change my scheme's joining procedures?

It is your responsibility to ensure **Eligible Jobholders** become active members of a pension scheme, (active members are employees who still work for you). How you do this will depend upon the type of pension scheme you choose to use. (See **Leaflet 3 - What are my pension scheme options?**)

Joining Window

The period lasting one calendar month from the **Eligible Jobholder's Automatic Enrolment Date**

Automatic Enrolment Date

The first date your employee meets all the criteria to be an **Eligible Jobholder**.

If you choose to use your existing pension scheme(s) it is highly likely you will need to change your joining procedures even if you already enrol employees into your scheme automatically.

During the **Joining Window** period you need to provide information to:

- the pension scheme about **Eligible Jobholders**;
- **Eligible Jobholders** about their **Automatic Enrolment**; and
- arrange for **Eligible Jobholders** to become active members of your scheme from their **Automatic Enrolment Date**.

Once enrolled as long as the employee remains an active pension scheme member you don't have to assess his or her earnings again even if they fall below the earnings triggers. You will, of course, have to continue deducting and paying contributions.

Enrolment Date

The **FIRST** day of the **Pay Reference Period** after you receive the **Opt-in** notice.

Except

If you have already closed your payroll when you receive the notice, the ***Enrolment Date*** *is:*

The **FIRST** day of the **2nd Pay Reference Period** after the date you receive the notice.

Can employees who are not Eligible Jobholders ask to join?

Yes. **Non-eligible Jobholders** don't have to be automatically enrolled into pension saving and if they are not already members of a **Qualifying Pension Scheme** they have the right to ask to join an **Automatic Enrolment Scheme** (explained in **Leaflet 2 - What do I need to think about?**).

In addition **Eligible Jobholders** who have **Opted-out** after being automatically enrolled or who **Opt-in** during the **Postponement Period** can also ask to join and you will have to pay contributions.

Entitled Workers can also ask you to arrange pension saving (but the scheme does not have to be a **Qualifying Pension Scheme** or even an **Automatic Enrolment Scheme**) and you don't have to pay any contributions.

What action do I have to take for employees who ask to join?

The Department for Work and Pensions (the Government Department responsible for developing a strategy for informing the general public about the new rules for pension saving) is expected to create a standard communication which you can use to tell your employees about their right to ask to join.

If an employee asks you to arrange pension saving and previously requested this within the last 12 months but has subsequently **Opted-out**, you don't have to re-enrol them unless you choose to do so. Similarly, although you generally have re-enrol employees who **Opt-out** broadly every three years from your **Staging Date**, you can exclude employees who **Opted-out** within the last 12 months of the re - enrolment date.

Step 1.
Tell the employees about their right to ask to join

Step 2.
Employees who ask to join must give you an **Opt-in** notice

Step 3

Entitled Workers
Arrange for the employee to become an active member of a pension scheme from their **Enrolment Date**

Employees who are not **Entitled Workers**
Arrange for the employee to become an active member of an **Automatic Enrolment Scheme** from their **Enrolment Date**

What do I do if my employees already have pensions as part of a contractual agreement?

If you include pension saving as part of a contractual agreement, for example, you are committed to automatically enrolling your employees into pension saving under terms in a contract of employment, or you used a contractual agreement to put **Salary Sacrifice** or **Flexible Benefits** arrangements in place, you should continue to honour these contracts. Have a look at **Leaflet 3 - What are the pension scheme options?** which explains the rules for **Salary Sacrifice** and **Flexible Benefits** if they have been set up as part of a contractual agreement. If you do have contractual agreements involving pension arrangements you should seek advice to make sure you do not overlook any of the actions you need to take.

What if my employee stops being an active member of my pension scheme?

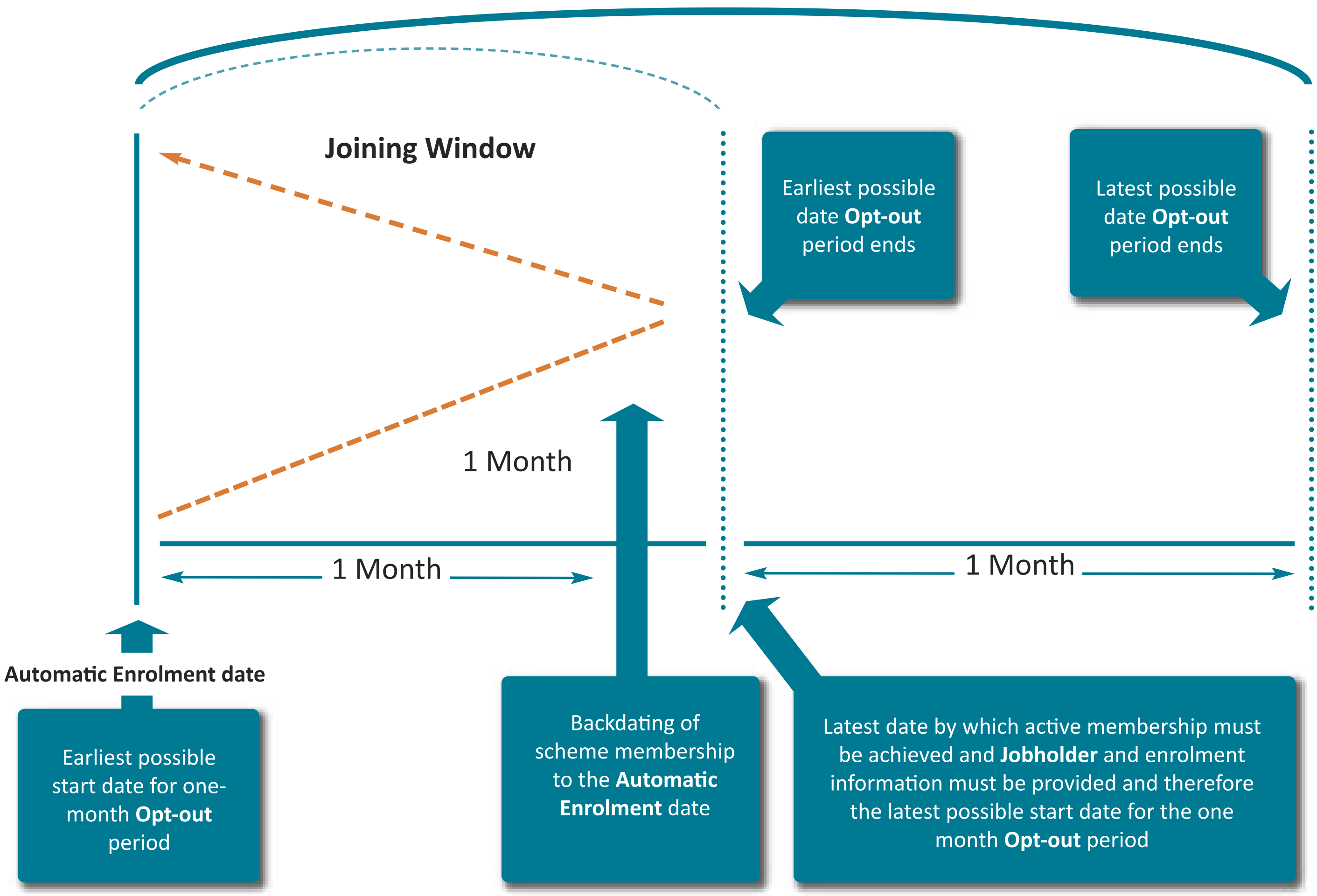
The action you will need to take depends on the circumstances. For example, has your employee decided he or she does not want to be automatically enrolled under the new pension saving rules (ie **Opted-out**), decided to stop paying into the pension scheme or simply left employment making membership of the pension scheme no longer applicable?

Opting-out

Eligible Jobholders can **Opt-out** after they have been automatically enrolled and **Non-eligible Jobholders** who ask to join the scheme can do the same once they have been enrolled. In both cases the employees must receive written information from you explaining the new pension saving rules before they can **Opt-out**. The information you must give these employees is explained in **Leaflet 5 - What do I need to tell my employees?**

The Pensions Regulator has produced a diagram showing the possible timeframe during which your employee can **Opt-out**.

Window for possible Opt-out period



Opting-out procedure

If **Eligible** or **Non-eligible Jobholders** want to **Opt-out** and be treated as if they had never been members of the pension scheme, they have one month to complete and submit a valid **Opt-out** notice. For all pension arrangements, except **Personal Pension** schemes, (ie pension arrangements which are not sponsored by an employer) the one-month **Opt-out** period starts from the later of:

- the date an employee is enrolled into pension saving; and
- the date he or she receives written information from you explaining the new pension saving rules.

In **Personal Pension** schemes, the one-month **Opt-out** period starts on the later of:

- the date the employee is sent the terms and conditions of the agreement to become an active member; and
- the date the employee receives written information from you explaining the new pension saving rules.

Provided your employee submits a valid notice within these timescales, you have to refund any pension contributions you have deducted from their pay through your payroll system.

Entitled Workers or employees who you have enrolled into pension saving under a contractual agreement (eg their contract of employment) don't have the right to **Opt-out** in this way. They do of course have the general right to leave pension saving at any time but the scheme rules will dictate what will happen and the action you need to take.

Opt-out notices

To ensure your employees can make this decision freely they have to obtain **Opt-out** notices (either in paper or electronic format) from the pension scheme. As an employer you can't issue them.

When you receive an **Opt-out** notice you have to check to see if it is valid. If it's not, you can extend the usual one month **Opt-out** period by two weeks to allow the employee time to return a valid notice. Otherwise when you receive a valid notice late, it can't count as an **Opt-out**. Instead it must be treated as a normal request to leave the pension scheme, where the rules of your scheme will dictate what needs to happen and the action you must take.

Record Keeping

Under the new rules for pension saving employers, trustees and pension scheme providers are all legally required to keep records to prove they have complied with the new requirements. You can use electronic or paper-filing systems as long as these are legible or can be reproduced in a legible way.

You need to keep records about:

- **Eligible** and **Non-eligible Jobholders** and **Entitled Workers** (for example, names, National Insurance numbers, **Opt-in** and joining notices);and
- the pension scheme (s) you are using for pension saving (for example, pension scheme reference number and scheme (s) name and address).

Records usually need to be kept for six years but **Opting-out** records only need to be kept for four years.

The next leaflet in the series is **Leaflet 5 - What do I need to tell my employees?** and concentrates on how you explain the new rules for pension saving to your employees.

What do I need to do now?

1. Determine if postponing the introduction of the new rules for pension saving is an option.
2. If I am going to postpone, identify what date I will need to introduce the new rules.
3. Decide when I need to start to categorising my employees.
4. Identify when I have to assess **Qualifying Earnings**.
5. Check what changes I need to make to my processes and record keeping.
6. Read **Leaflet 5-What do I need to tell my employees?**

Other sources of information

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

Direct Gov - **www.direct.gov.uk** The Department for Work and Pensions - **www.dwp.gov.uk**
The Pensions Regulator - **www.thepensionsregulator.gov.uk**