Leaflet 2 | July 2013

Securing the future of pensions

Workplace pension saving made simple

What do I need to think about?

How do I enrol my employees into pension saving?

You can use:

- a pension scheme which has been set up simply for the purpose of enrolling employees into pension saving
- your own existing pension scheme

So in the first instance it depends whether or not you already have a pension scheme and even if you do, whether or not you want to use it for enrolling your employees.

I don't have a pension scheme

If you don't have a pension scheme you will need to set up your own scheme especially to comply with the requirement to offer pension saving to your employees or use an external scheme run by an outside provider. The choices you have are:

1. Establish and sponsor your own workplace pension scheme (the law calls this an **Occupational** pension scheme).

2. Use a **Stakeholder** or **Personal** pension scheme (pension schemes which are generally set up with an external provider and where each employee has an individual contract with the provider).

3. Use the National Employment Savings Trust (NEST) which is the pension fund set up by the Government to help employers implement workplace pension saving.

4. Use one of the Master Trust **Occupational** pension schemes, which have been set up by private sector providers to compete with NEST and where employers participate in one 'centralised' scheme.

It's expected that most schemes set up to accommodate workplace pension saving will be **Defined Contribution Schemes** (**DC**) but **Defined Benefit Schemes** (**DB**) can be used too. If you want to think about using your own scheme you need to know there are rules governing how you can do this.

Defined contribution schemes

- Pension schemes which generally use the money which is saved over working lifetime to purchase an annuity at retirement.
- The amount of the annuity that can bought depends on what has been paid into the scheme, what is earned in interest and the cost of buying an annuity at retirement.
- The annuity once purchased generally provides an annual income for the scheme member for life.

Defined benefit schemes

- The scheme rules define what the member will receive as a pension and when he or she will receive it.
- Often the pension is expressed as a fraction of salary x the number of years the employee is a member of the scheme.
- Final salary schemes are schemes that use the salary at or near retirement in the calculation.

Box 1

Automatic Enrolment Scheme

1. Where a scheme has been set up in the UK, the rules of the scheme cannot contain any provisions which

- prevent you automatically enrolling any employees who meet the criteria for **Automatic Enrolment** or who choose to join under the opt in rules (*See* **Leaflet 1 What are the rules?**);
- stop employees from opting in or being re-enrolled; and
- require employees to provide information or make any mandatory choices in order to remain an active member of the scheme.

AND

2. Your scheme must be an **Occupational** or **Personal** pension scheme, registered with HM Revenue and Customs for tax purposes.

AND

3. If your scheme is going to be a **DC** scheme you have to pay a minimum level of contributions.

AND

4. If you decide to set up a **Contract-based DC scheme** there will be additional requirements relating to the agreements that need to be in place between you and your employee and the scheme provider.

AND

5. If you choose to set up a **DB** scheme you will have to meet certain benefit requirements.

I already offer my employees a pension scheme

The Government recognises that large numbers of employers already offer pension saving opportunities to their employees. Many of these employers pay pension contributions which could even be in excess of the minimum amounts required under workplace pension saving rules.

No-one wants to disrupt good levels of existing pension saving, especially if it is supported by you, the employer, so the rules allow you to use your existing pension scheme (or schemes, if you have more than one) for existing scheme members provided the scheme meets the conditions for **Qualifying Pension Schemes**.

You will still need to offer an **Automatic Enrolment Scheme** to those employees who meet the criteria for **Automatic Enrolment** and who have the right to **Opt in** (see **Leaflet 1 What are the rules?**) As a result, some employers may want to use the same scheme for all their employees. This option is discussed in more detail in **Leaflet 3 What are my pension scheme options?**

Box 2

Qualifying Pension Schemes

- The scheme must be an **Occupational** or **Personal** pension scheme registered with HM Revenue and Customs for tax purposes.

AND

- If your scheme is going to be a **DC** scheme you to have pay a minimum level of contributions.

AND

- If you decide to set up a **Contract-based DC scheme** there will be additional requirements relating to the agreements that need to be in place between you and your employee and the scheme provider.

AND

- If you choose to set up a **DB** scheme you will have to meet certain benefit requirements.

What if my employees can't or haven't joined my pension scheme?

Part of the decision about using an existing pension scheme will involve deciding what you are going to do with different groups of your employees. For example, how do you want to deal with employees:

- who are already members of your pension scheme (s)?
- who are allowed to join your pension scheme (s) but have chosen not to join?
- who cannot join your pension scheme (s) but under the workplace pension saving rules have to be put into a pension?

Another factor which will influence the decisions you make about the scheme or schemes you choose and the employees to be covered will of course be cost.

How much will these rules for workplace pension saving cost me?

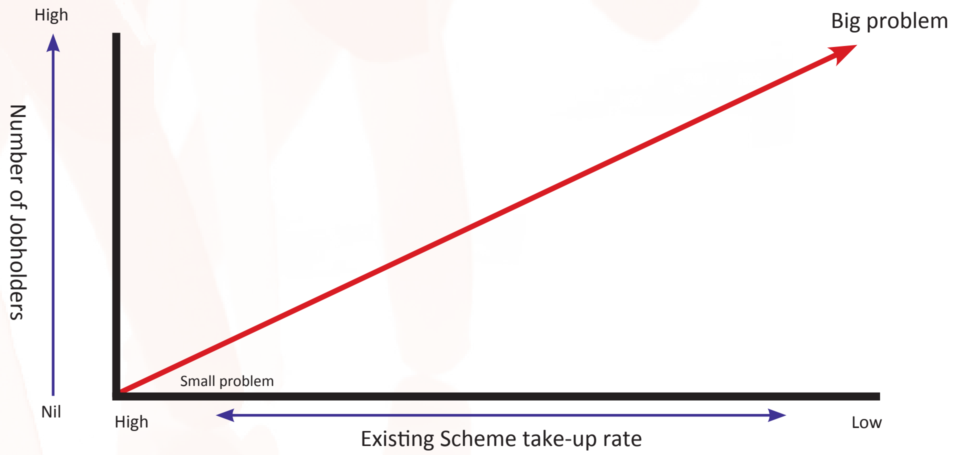
Unlike when **Stakeholder** pensions were first introduced over 10 years ago the rules require much more than just making a workplace pension available to your employees. This time you will have to enrol employees automatically into a pension scheme unless they are already members of a **Qualifying Pension Scheme** and pay pension contributions for these workers. You will also need to pay contributions for **Non-eligible Jobholders** who opt to join the pension scheme. (This term is explained in **Leaflet 1 What are the rules?**)

The costs, both direct and indirect, of complying with the rules for workplace pension saving, will depend on a number of factors, including:

- the size and make up of your workforce;
- the nature and extent of any existing pension arrangements you may have; and if applicable,
- the number of employees already saving in your pension scheme.

The graph below highlights what the risk to you the employer might be.

Even if your pension scheme has high take up rates, there are still administration and compliance costs to consider. Most administrators ask employees to use paper based application forms to join the pension scheme. The rules for **Automatic Enrolment** and re-enrolment will require much more automated pension scheme joining processes. It's really important, therefore, that you try and quantify the cost of the various choices that you have before you take any final decisions.



How do I work out the scale of my costs?

Numbers of employees
If you are a small to medium sized employer you may have a very clear idea how many of your workforce have to be put into a pension or have the right to a contribution from you towards their pension saving. If you are a larger employer this may take a bit of working out.

As discussed in **Leaflet 1 What are the rules?** you first need to categorise your employees into the three categories of **Eligible** and **Non-eligible Jobholders** and **Entitled Workers**. This will give you an idea of the potential numbers and types of employees involved.

Costs
While pension contributions are likely to be your most significant cost, it is also important to consider the additional cost of gaining professional advice, developing employee communications and, if necessary, making any changes to your existing systems and processes.

If you have large numbers of employees you may also want to consider multiple scenarios, working with variables such as segmented treatment of employees by grade and/or service and different **Opt out** rates.

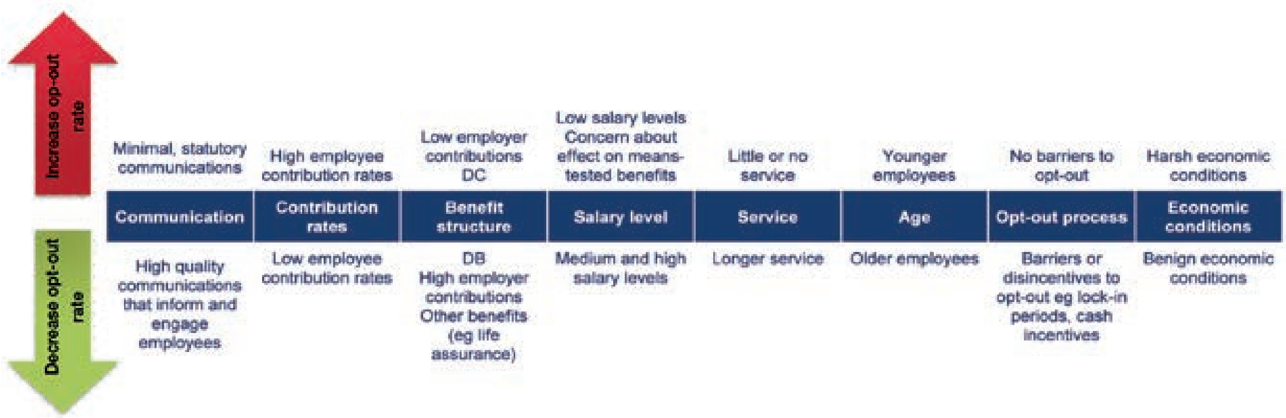
Opt out rates
It is important to remember the rules for workplace pension saving are compulsory but continued membership of your pension scheme is not. You may therefore want to make an allowance for the fact that some of your employees are likely to ask to be taken out of the pension scheme once they have been automatically enrolled into it (called **Opting out**) and some will leave the scheme if their employment ends, (an important point for organisations with a high turnover).

Currently it's too early to tell if there will be a significant trend towards **Opting-Out** as smaller employers have not yet reached their **Staging Date**. Actual experience will depend on your own organisation, the sector in which you operate and some additional factors (examples of these are shown in the diagram at the bottom of this page).

Benchmarking
So far we have looked at different scenarios using the factors which apply if you simply offer the minimum required under the rules for workplace pension saving. You may also wish to model the financial implications of introducing pension saving arrangements which are based on similar levels to those:

- offered by other employers in your sector, or by a select group of your competitors; or
- which may apply if you 'targeted' certain retirement outcomes e.g. levels of retirement income; or
- which use the contribution rate recommended under the NAPF's Pension Quality Mark (which is an award for **DC** schemes which satisfy certain conditions, one of which is a joint employee and employer contribution rate of 10% or more, with the employer paying at least 6% of this contribution).

There are also other options that might help you mitigate the extent of your costs including, for example, the use of **Waiting Periods** and **Salary Sacrifice**. Both concepts are discussed further in **Leaflet 3 What are my pension scheme options?**



How do I work out the cost of my pension contributions?

Phasing-in

To ease the burden on you and your employees the rules for workplace pension saving allow **DC** schemes to phase-in contributions. Initially the contributions you and your employee will have to pay will be set at a low level but gradually over time they will increase. The idea is that every employee who you have to pay pension contributions for will eventually receive pension contributions of 8%, with at least 3% of this coming from you, the employer. **Box 3** shows how pension contributions will be phased-in over time.

Phasing-in of contributions does not apply to **DB** schemes and so if you are contemplating using a **DB** arrangement to satisfy the rules for workplace pension saving there are a number of additional factors you need to think about. These are discussed in more detail in our next leaflet of this series **Leaflet 3 What are my pension scheme options?**

Box 3	**Phasing-in of contributions**		
Transitional period	**Duration**	**Employer minimum contribution**	**Total minimum contribution**
1	Employer's **Staging Date** to 30 September 2017	1%	2%
2	1 October 2017 to 30 September 2018	2%	5%
1 October 2018 onwards		3%	8%

Earnings

As described in **Leaflet 1 What are the rules?** each employee's earnings needs to be considered to determine the correct category to put employees into and in a **DC** scheme to work out how much you and your employee need to pay (as a minimum) into pension saving.

You and/or your employee may decide to pay more than this but you need to make sure you both pay what is required under the law.

To work out these minimum contributions the rules for workplace pension saving define what earnings must be used (known as **Qualifying Earnings**) If you intend to use your own pension scheme, as a **Qualifying Pension Scheme** it's important you check the definition you use for earnings as it may not be the same as **Qualifying Earnings**.

Certification

If are going to use a **DC** scheme and the definition of pay for pension purposes is different from that defined by **Qualifying Earnings** you can choose **Certification** of earnings instead.

There are three ways to certify earnings to choose from:

Tier 1 - a contribution of at least 9% of **Pensionable Pay** of which 4% must come from the employer.

Tier 2 - a contribution of at least 8% of **Pensionable Pay** of which 3% must come from the employer. At least 85% of earnings in respect of all of the jobholders covered by the certificate must be pensionable.

Tier 3 - a contribution of at least 7% of all earnings of which at least 3% must come from the employer.

Phasing-in applies to these three tiers and different groups of jobholders can fit into one or more of the tiers. (If you use different tiers for different jobholders, a certificate for each tier is needed).

Qualifying Earnings

The rules for workplace 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 2013/2014 **Qualifying Earnings** are earnings between £5,668 and £41,450 inclusive)

Pensionable pay

Pay for pension purposes as defined in your scheme rules, but which must be at least equal to **Basic Pay**

Basic Pay

Basic Pay must include a jobholder's earnings before deductions; holiday pay; and statutory benefits (e.g. Statutory Sick Pay (SSP) and maternity pay)

Basic Pay does not need to include: bonuses, overtime, commission, car allowances, clothing allowances, meal allowances, shift allowances, allowances for health and safety and relocation allowance

In **Leaflet 3 What are my pension scheme options?** the next leaflet in this series we look at:

- using your existing scheme;
- setting up a new scheme; and
- multiple pension scheme solutions.

What do I need to do now?

1 Determine what pension scheme (s) I am going to use to comply with the rules for workplace pension saving
2 If I have a large number of employees, consider getting some help to run some financial modelling
3 Check how I define pay for pension purposes
4 Decide if **Certification** is right for me
5 Read **Leaflet 3 – What are my pension scheme options?**

Other sources of information

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

NAPF's Automatic Enrolment website - **www.napf.co.uk/Automatic-Enrolment**
GOV UK - **www.gov.uk**
The Department for Work and Pensions - **www.dwp.gov.uk**
The Pensions Regulator - **www.thepensionsregulator.gov.uk/automatic-enrolment.aspx**