

Auto enrol – the new pension law for all businesses

With just under 12 months left to prepare for the auto-enrolment pension time bomb, employers must act now to avoid an administrative nightmare and protect their business planning

The majority of UK employers are unprepared for the time bomb about to hit them in the shape of ‘auto-enrolment’ and the new obligations to provide staff pensions that this brings.

Starting from October next year all UK employers will be obliged to automatically enrol all eligible employees in a pension plan (see box). But many have yet to take on board what this means for them.

“More than 60 per cent of employers have not yet budgeted for the extra cost of auto-enrolment and more than 25 per cent do not know the date when the new rules will apply to them,” says Sue Curley of Capita Hartshead, which specialises in advising businesses on workplace pensions.

“The biggest employers are due to start auto-enrolment first and their very size can bring with it inherent complications,” says Curley. “A retail chain, for example, will have thousands of employees, many of whom may not have joined the staff pension scheme.

So to meet the new obligations, the employer will be required to identify who they must enrol, ensure that these staff are enrolled in a qualifying scheme, make contributions for them and deduct employees contributions from their pay. High levels of staff turnover in the retail sector will increase the size of this administrative challenge further.”



It does not help that some of the practical implications for employers are still unclear – despite the fact that autumn 2012 is fast approaching – leaving the first companies which have to comply just 12 months to prepare.

The biggest challenge for many employers – large and small – will undoubtedly be to work out which employees fit the criteria for auto-enrolment. “Do you know how many of your employees are over 22 and earn more than £7,475 a year? It sounds straightforward, but what if the employee receives a bonus or overtime that pushes them into this bracket for just one month?

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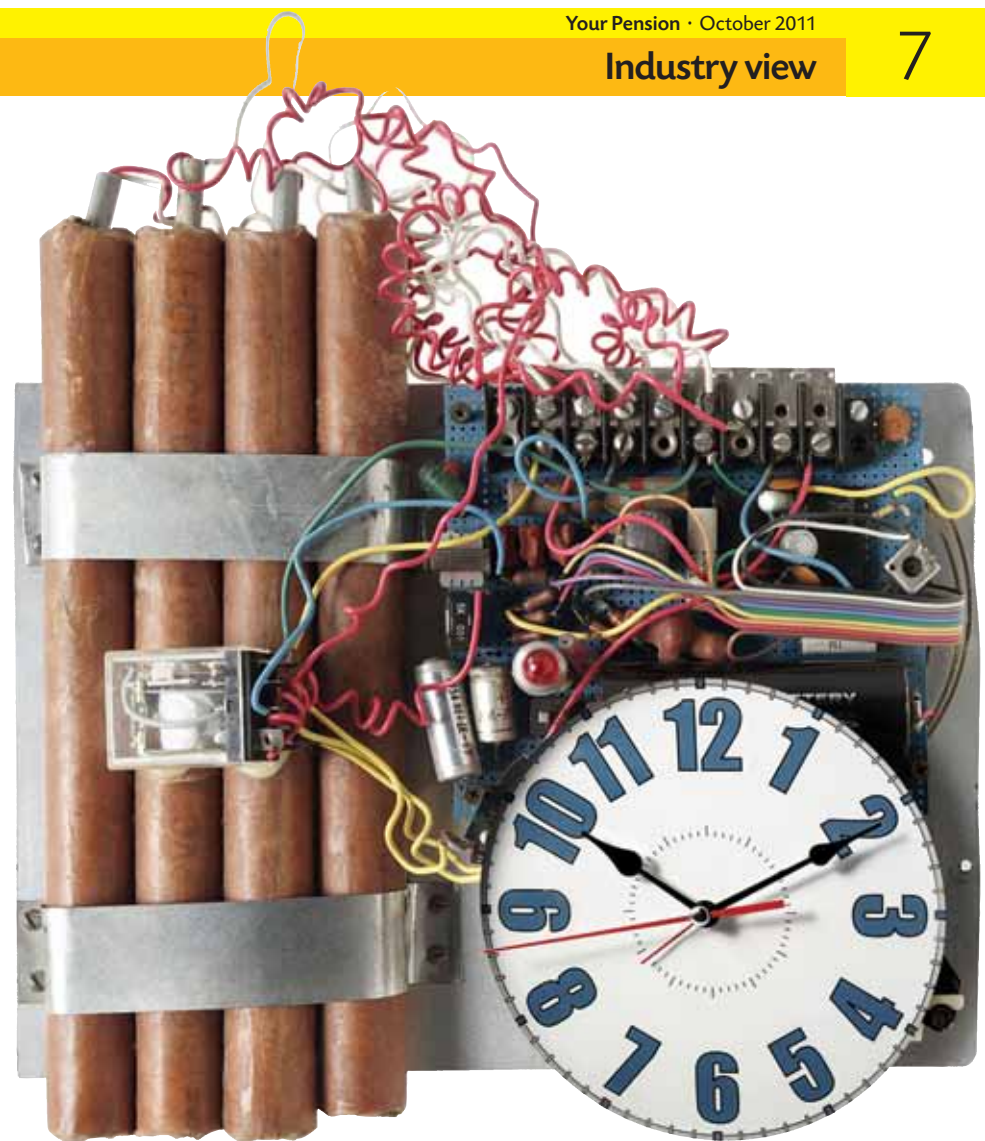
Are they eligible or not?” says Curley. “If they are eligible then they will not be enrolled for three months, by which time their salary could have dropped below the level required.”

Curley goes on to point out that “HR departments and financial directors will be bearing the brunt of the challenge, and they may not be used to working together in this way. They have to come up with a strategy to satisfy the new rules on enrolment, which also suits the company’s aims and finances, and this may mean that a new staff pension scheme is required”.

Often, the specific information that is required for auto enrolment is held on two separate systems with payroll data on one and HR information on the other and these will have to be married together to produce the necessary data.

Once relevant employees have been identified they need to be enrolled in the correct scheme, which must be a qualifying one, meeting the required government standards, and one to which the employer is contributing certain amounts.

Some companies may have several existing pension schemes that could qualify. “Many bigger companies have three schemes – a legacy-defined benefit plan, which may be closed but which still has members with benefits accruing; a defined contribution scheme; and a stakeholder pension plan.



You could offer any of these that qualify to employees – but there is also a fourth option – the new NEST scheme,” says Curley. NEST (National Employment Savings Trust) is a simple pension scheme for moderate to low earners set up by the government for any employer that chooses to use it.

Employers’ minimum contributions are to start at 1 per cent in 2012, increase to 2 per cent from October 2016 and rise to 3 per cent from October 2017 onwards. There is a time factor to be taken into account, too. “Changing an existing pension scheme requires a consultation with members that must last a minimum of 60 days and setting up a new scheme also takes time to plan and implement,” says Curley.

“The first step is to undertake a fact-finding exercise in order to assess the best way forward. Specialist consultancies such as Capita Hartshead can help with this,” says Curley. “We can look at your existing schemes, plus new options such as NEST, and work out the best solution for the business and employees.”

To further complicate the issue, employees are free to opt out of the qualifying pension scheme once they are enrolled, but their employer is obliged to keep a record of the fact and must automatically enrol them back in again approximately three years after the original enrolment date. Moreover, under-22s and those earning less than the £7,475 threshold are entitled to ask their employers to enrol them.

It could all add up to an administrative nightmare and, of course, extra financial implications for employers. Also to be taken into account is the practical cost of implementing the new scheme. There are likely to be costs for updating HR and payroll systems to meet the new demands and companies are likely to need extra staff time too, perhaps on a short-term basis, so there will be associated recruitment costs.

The basics about automatic pension enrolment

From 2012 every employer must enrol into a workplace pension scheme:

- those workers not already in a workplace scheme
- those who work or ordinarily work in the UK under their contract
- those who are over 22 and under the state retirement age
- those who earn more than the minimum threshold (likely to be £7,475 a year).

The starting date for the largest employers is late 2012 to early 2013, with other employers coming on board at staging dates stretching to 2016.

The scheme must be a qualifying scheme, meeting government standards, and employers must contribute by law. Employees can opt out and opt back in again later.

“You may be better off hiring in short-term expertise to take care of the administration for you,” says Curley.

You may also need help to work out the potential cost of the new requirements based on the likely percentages of employees who will be auto-enrolled into the various pension options, and the cost of scheme implementation. “Once you know what the costs are likely to be, you can start budgeting for the big day,” says Curley. “It’s important to get started now if you are not going to be taken by surprise.”

For more information, visit:

www.autoenrol.capitahartshead.co.uk