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Automatic pension enrolment: business briefing

This business briefing explains the obligations that the automatic pension enrolment requirements place on a business.

What is auto-enrolment?

- From a date after October 2012, businesses will be required to automatically enrol eligible “jobholders” in a pension scheme. A “jobholder” will include permanent, fixed-term and temporary employees, as well as agency workers.
- A business can use an occupational or personal pension scheme if it meets statutory quality requirements. Otherwise the business will have to enrol jobholders in the National Employment Savings Trust (NEST), a central defined contribution scheme to be set up by the government.
- A defined contribution scheme (also known as a money purchase scheme) is a pension scheme in which an employer and employee pay fixed contributions. The employee receives a pension or annuity at retirement, the size of which depends on the contributions paid and the investment return on those contributions over the member’s working life.
- Employees may opt-out of either scheme, but only once they have been automatically enrolled.
- Businesses must pay a minimum level of pension contributions for each employee.
- The requirement to automatically enrol eligible jobholders will be phased in over five-and-a-half years from October 2012, with larger businesses required to comply first.
- Businesses will be required to automatically re-enrol eligible jobholders every three years after they first become subject to the statutory employer duties.

Meeting Rooms Nationwide

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Authorised and Regulated by the Solicitor's Regulation Authority (ID 573580)

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No exemption for smaller businesses

Small businesses will not be exempted from the auto-enrolment requirements since this would exclude 1.3 million employees from the reforms and create substantial enforcement problems. On 1 October 2012, regulations came into force extending the implementation period for businesses with fewer than 50 employees. Small employers will therefore not be subject to auto-enrolment until June 2015 at the earliest.

Changes to NEST

- The annual contribution limit (set at £4,400 in 2012/13) will be removed once the five-and-a-half year staging period has been completed.
- The ban of transfers into and out of NEST should be reviewed in 2017. NEST should be able to receive and make transfer payments once auto-enrolment is established.

What is the income threshold at which individuals are auto-enrolled?

- Jobholders will only be automatically enrolled once they reach the income tax threshold (£8,105 in 2012/13 and £9,440 in 2013/14).
- Contributions will be based on earnings between the National Insurance lower earnings limit (£5,564 in 2012/13 and £5,668 in 2013/14) and the upper earnings limit (£42,475 in 2012/13 and £41,450 in 2013/14). Employees who have been automatically enrolled will continue to pay contributions until their earnings drop below the income tax threshold (unless they opt out).
- Any employees with earnings between these thresholds will be able to opt in and receive an employer contribution.

What are the age limits for automatic pension enrolment?

The age band for eligibility is between 22 and the state pension age. Retaining the state pension age as the upper age limit gives people access to pension saving during their normal working lives and avoids automatically enrolling people for whom saving is no longer the right option.

Three-month waiting period before an employee is automatically enrolled

A business can use a three-month waiting period to avoid automatically enrolling employees who leave employment soon after joining (for example, seasonal or temporary workers). This will also allow businesses to align enrolment dates with their own payroll systems.

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Simplified certification process for defined contribution schemes

A defined contribution scheme could be certified as meeting the requirements if it satisfies any one of the following criteria:

- A minimum 9% contribution of pensionable pay (including a 4% employer contribution).
- A minimum 8% contribution of pensionable pay (with a 3% employer contribution) provided pensionable pay constitutes at least 85% of the total pay bill.
- A minimum 7% contribution of pensionable pay (with a 3% employer contribution) provided that the total pay bill is pensionable.

Businesses can voluntarily comply ahead of schedule

Businesses that were scheduled to automatically enrol in October or November 2012 were allowed to bring forward their staging dates to 1 July, 1 August or 1 September. Other businesses can bring forward their staging dates too, provided they notify the Pensions Regulator and have a qualifying scheme available.

*This note does not constitute legal advice and is intended as general guidance only.
If you would like further information or would like to arrange a meeting please email hina@partnerslaw.co.uk or call 020 7374 6546*

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