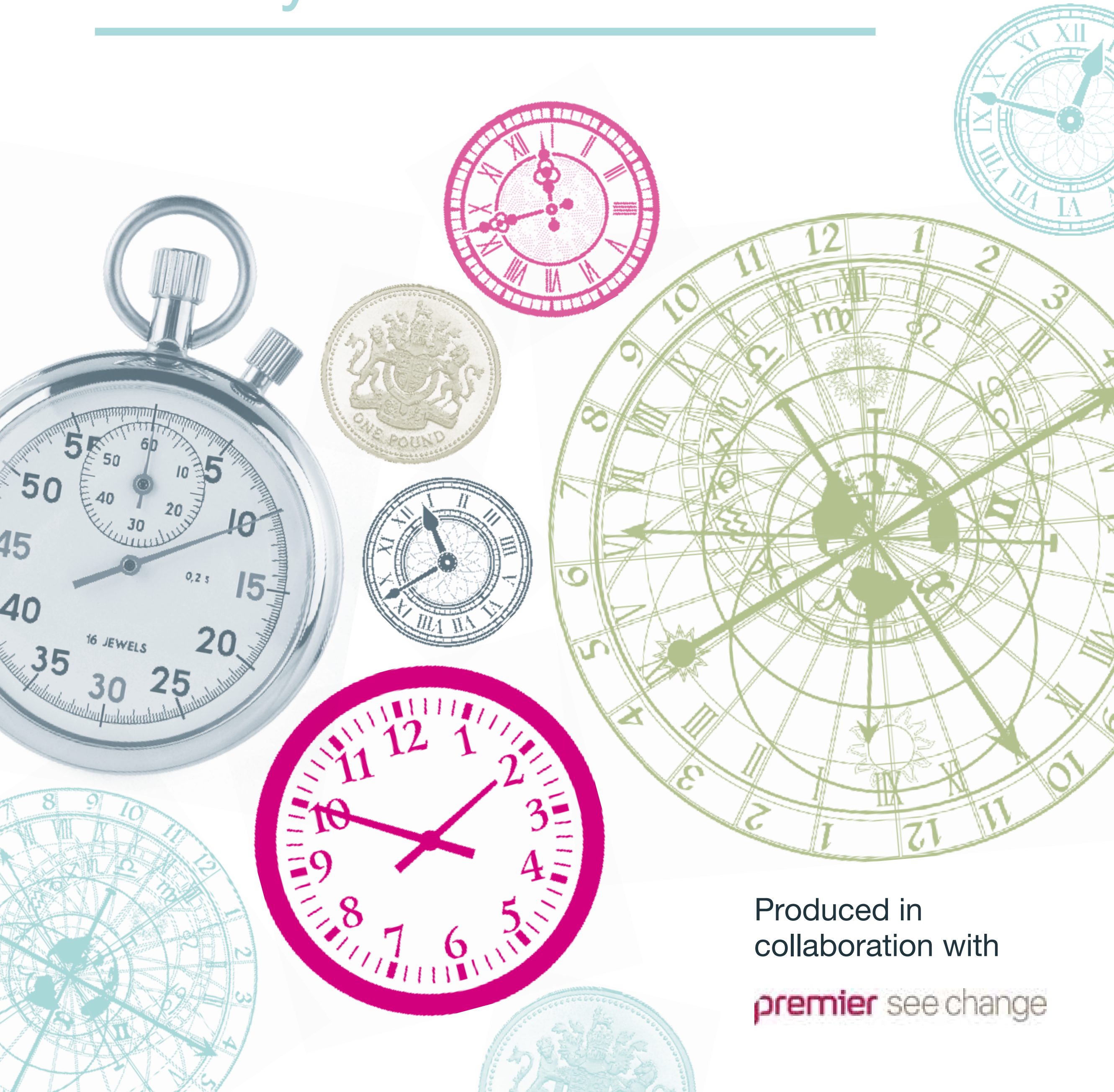
CFG INSPIRING FINANCIAL LEADERSHIP

Auto-enrolment for small charities: what you need to know



Produced in collaboration with

premier see change

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The guide has been written by Premier Pensions and produced by Charity Finance Group.

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Foreword

In October 2012, the government introduced new pension regulations that require employers to auto-enrol all eligible employees into a workplace pension scheme. We wholeheartedly welcome the move to actively encourage all workers to save for their retirement. However, the burden of implementation and cost falls on employers, so it is essential to plan early and manage the process well. This guide aims to help small charities to do just that.

Charities with fewer than 25 members of staff employ nearly half of the 821,000 workers in the voluntary sector. From 2015 onwards, we estimate that 22,000 charities will have to comply with auto-enrolment regulations. Charity Finance Group's survey on auto-enrolment showed that 63% of respondents that were due to auto-enrol in 2013 were confident in their capacity to do so. Although this optimism is encouraging, the key lessons from organisations that have already been through the process are:

- Plan early;
- Factor in costs;
- Do not assume that your current pension scheme will be compliant with new regulations or that your current provider will offer you a qualifying scheme; and
- Employers should anticipate low opt-out rates.

The three case studies at the end of this guide provide examples of the steps that some small charities are already taking to prepare for auto-enrolment, despite their staging dates being over a year away.

To support small charities with the auto-enrolment process, CFG has produced this guide in collaboration with Premier Pensions. We are hugely grateful to our members that have fed into the guide and provided case studies.

We hope that this practical guide will leave you with a clear outlook on your responsibilities and the confidence to implement the new regulations well.

Contents

Introduction

Every employer with at least one member of staff must enrol those who are eligible into a workplace pension scheme, and contribute towards it. This is called auto-enrolment.

The very largest employers 'Staged' (i.e. commenced auto-enrolment) in October 2012, with progressively smaller organisations having to auto-enrol over a period lasting until September 2017.

We are now into the busiest phase of auto-enrolment as organisations with fewer than 50 employees are reaching their Staging Date.

In many ways, this is the most difficult period in the short life of auto-enrolment. Simply due to the fact that smaller organisations, with limited access to both internal resources and professional assistance, now have to meet the regulatory requirements of auto-enrolment, there is a greater chance of errors occurring.

Smaller organisations often find it difficult to access information and assistance on how to get ready for auto-enrolment. Professional consultants can charge several thousand pounds to advise an employer on how to auto-enrol. These fees are often unaffordable for small charities.

For some, the process of getting ready for auto-enrolment is complex and they are finding it difficult to understand what must be done prior to their Staging Date and what is required once the auto-enrolment scheme is up and running.

This guide is designed to demystify auto-enrolment and take small charities through the process step-by-step.

Some users of this guide may use a payroll bureau. It is important to understand the auto enrolment process so that you know what your obligations are as an employer and to ensure that you are clear on what your payroll bureau is, and is not, able to do on your behalf. Look out for the boxes throughout the document for additional tips that will be relevant for you.

FAQs

Is auto-enrolment compulsory for employers?

All UK organisations are impacted by auto-enrolment. It is a requirement that is closely monitored by The Pensions Regulator.

The Pensions Regulator recognises that most employers will want to do the right thing for their staff and they have already stated they wish to educate employers, thus enabling them to comply with the legislation.

The Pensions Regulator is a useful source of free information and we would encourage employers to review the content of their website at www.thepensionsregulator.gov.uk/automatic-enrolment

The Pensions Regulator also has the power to penalise any organisation in the UK who ignores their duties and they will use their powers where necessary to ensure compliance.

Failure to comply can result in a range of enforcement options, including:

1. **Informal action** where guidance is issued by telephone, email, in writing or in person. An additional warning letter confirming a timeframe for compliance can also be sent.
2. **Statutory notices** can direct an employer to comply with required duties and pay any outstanding contributions. The Regulator can estimate and charge interest on unpaid contributions.
3. **Penalty notices** are issued to persistent and deliberate non-compliance.

   A fixed penalty of £400 is issued for failure to comply with a statutory notice.

   Alternatively, an escalating penalty can be issued for failure to comply with a statutory notice with daily rate penalty of £50 to £10,000 depending on the number of staff.
4. Where employers fail to comply with a compliance notice, they can receive a **Prohibited Recruitment Conduct penalty**. This incurs a penalty of £1,000 to £5,000 depending on the number of employees.
5. Finally, **civil action** through the courts will be taken to recover penalties and prosecute employers who deliberately and wilfully fail to comply.

What will auto-enrolment cost?

The costs of setting up your auto-enrolment scheme will vary from charity to charity. However, you will need to set aside a budget for setting up a compliant pension scheme, changing payroll arrangements, administration and so on. If you decide to manage the process without any external support, costs can start from £750. If you want guidance through the process it can cost upwards of £1,500. You will need to check with your payroll provider whether there will be any additional costs.

The total contribution rates are as follows:

- A total initial contribution of 2% of which the employer must pay a minimum of 1%.
- In October 2017 this will gradually increases to 5% (of which the employer must pay 2%).
- From October 2018 this total contribution will increase to 8% (of which the employer must pay 3%).

Thereafter, there has been no official directive in terms of future increases. However, industry experts expect the level of auto-enrolment contributions to increase after 2018.

Where can employers go for help?

The Pensions Regulator's website is a good starting point.

However, most professional pension providers and advisory firms have made available (at little or no cost) a range of services that employers can access (e.g. www.aeplanner.co.uk).

In addition, some employers will find assistance from existing advisers, or they might even employ a new adviser to assist with the auto-enrolment requirements.

Who will provide the auto-enrolment pension scheme?

Your existing pension provider may be able to assist by extending pension provision to auto-enrolled staff.

However, if they cannot do this, or you need a pension scheme for the first time, then some of the auto-enrolment providers such as The People's Pension (www.thepeoplespension.co.uk) or the tax payer-backed NEST (www.nestpensions.org.uk) will be able to help.

How long will it take to set-up an auto-enrolment scheme?

Many people are unaware that the preparation is more difficult than the on-going management of an established auto-enrolment scheme.

Most pension experts recommend allowing for a 6 month project plan to get things right. This should be sufficient time to overcome any issues that are subsequently identified. However, it is important that you start to think about auto-enrolment now (see the case studies at the end of this guide).

Getting ready
The auto-enrolment guide

This section of the guide is split into three parts, designed to take employers through the auto-enrolment process step-by-step.

Each section breaks down the requirements placed on employers and provides some tips on how to:

- get ready for auto-enrolment;
- manage the on-going process;
- get it right on the first go.

The 3 sections are split into key areas of:

Research & Preparation	• Staging dates • Assess your workforce • Review pension arrangements • Review processes & systems • Chose a payment strategy
Getting ready to launch auto-enrolment	• Communicate with your employees • Implement process & system changes • Prepare pension arrangements
Launching auto-enrolment	• Keep employees informed • Enrol employees • Declaration of compliance • On-going actions • Record keeping

Research & Preparation

Staging dates

Your charity's staging date – the date from which eligible employees need to be auto-enrolled – is dependent on the size of your workforce.

The Pensions Regulator will remind you at least 12 months in advance of your Staging Date. If you cannot find yours, use The Pensions Regulator's Staging Date Calculator which can be found on their website at www.thepensionsregulator.gov.uk. Employers will need their PAYE reference when using the calculator.

You must be ready for auto-enrolment by your Staging Date. However, you can postpone auto-enrolling employees for up to three months from your Staging Date (see below for details), though you still need to have provision in place at your Staging Date.

Using a Postponement or waiting period

Whilst you must be ready by your Staging Date, you can elect to delay auto-enrolling employees for up to three months from your Staging Date (or the date employees first become eligible for auto-enrolment). This is known as the 'postponement' or 'waiting' period. You do not need to formally apply to do this but you will need to issue a notice to the workers. You can download detailed guidance, as well as sample letters, on The Pensions Regulator website at www.thepensionsregulator.gov.uk, or do an online search for 'auto-enrolment postponement'.

Postponement may be useful if you wish to align the auto-enrolment date to other processes and practices, such as setting your employees' auto-enrolment date to after your payroll is closed to changes for that pay period. This allows you greater certainty on the earnings on which you work out whether employees have to be auto-enrolled.

Assess your workforce

Employers will need to assess anyone who is classed as a '**worker**'. Workers are individuals who:

- Work under a contract of employment (employees), or
- Have a contract to perform work or services personally, and aren't undertaking the work as part of their own business.

Once workers have been identified, they will need to be categorised as follows:

- **Eligible jobholders**: they are all workers aged between 22 and State Pension Age (SPA), working in the UK and earning above the earnings trigger for auto-enrolment. They must be auto-enrolled into an auto-enrolment scheme.
- **Non-eligible jobholders**: they are either workers aged 16-21 or SPA- 74 who are (ordinarily) working in the UK and earning above the earnings trigger for auto-enrolment or workers aged 16-74, working in the UK and earning between lower level of qualifying earnings and the earnings trigger for auto-enrolment. They have a right to opt into an auto-enrolment scheme.

- **Entitled workers**: they are workers aged 16-74 who are (ordinarily) working in the UK under a contract of employment and earning below the lower level of qualifying earnings. They have the right to join a pension scheme.

The earnings threshold for the current tax year are available on The Pensions Regulator website.

Where employers already run a pension scheme, this exercise must include those employees already participating in that scheme.

Employers should do this well in advance. This will give a good idea of how much auto-enrolment will actually cost the company and who may be affected.

Even after your Staging Date, employers will need to assess:

- New employees on the date they start employment.
- Any existing employees who become old enough or start earning enough to be auto-enrolled at some point after the Staging Date.

Employers will also need to re-enrol employees who are not in pension saving every three years.

How much do you have to contribute to cover your auto-enrolment duties?

Where a defined contribution pension scheme is used for auto-enrolment, the minimum contributions paid are based on a band of workers' earnings known as 'qualifying earnings'.

Qualifying earnings are currently earnings between £5,824 and £42,385. Please note that these figures are for the 2015/16 tax year, and will be reviewed by the government each year. The Pensions Regulator updates these figures online, at www.thepensionsregulator.gov.uk

A minimum of 2% of qualifying earnings must be contributed, of which a minimum of 1% must come from the employer.

That amount rises over time to 8% in 2018, of which employers must contribute at least 3%. Employers can contribute more than these minimums if they wish.

Whilst 'qualifying earnings' is one definition of 'pensionable earnings' (the earnings on which pension contributions are based), employers can choose their own definition of pensionable earnings. You should check with the Pension Regulator's website to ensure the definition is both acceptable and the amount of contributions to be paid for each individual employee is at least as good as the 'qualifying earnings' option.

Could using salary sacrifice reduce your costs?

Salary sacrifice (sometimes called 'salary exchange') is where employees agree to reduce their contractual earnings by an amount equivalent to the value of their pension contributions.

In exchange for this, employers agree to pay the amount by which the earnings have been reduced into the pension scheme. As the employee's contractual earnings will have been reduced, employer and employee national insurance contributions will be lower.

Please note that salary sacrifice will not be suitable for all employees or all businesses, especially if you have employees paid at or near the National Minimum Wage or under the Personal Tax Allowance (£10,600 per annum for 2015/16).

There is a prescribed process to follow if electing to use salary sacrifice. Employers must follow this to ensure it meets HMRC approval. To read more about this, see HMRC's website or search online for 'EIM42750'.

Reviewing pension arrangements

If there is an existing pension scheme, organisations may be able to use or adapt this for auto-enrolment purposes.

Any existing scheme that is proposed for using for auto-enrolment (including individual plans) will need to be reviewed.

If an employer wishes to keep an existing scheme already used by employees, they will need to assess whether it is a 'qualifying pension scheme' – i.e. that it can be used as an auto-enrolment pension scheme. The Pensions Regulator website has guidance on this (www.thepensionsregulator.gov.uk). If your existing pension scheme does qualify, then you can carry on using it as normal for existing active scheme members.

As an employer, you should seek independent advice if you are planning on using an existing pension scheme.

Choosing an auto-enrolment scheme

As an employer, it's your responsibility to choose a good quality scheme to help your employees achieve a good outcome at retirement. If you have an existing pension scheme:

1. Check with your pension provider if your current scheme can be used for auto-enrolment.

   Your provider may ask for more details about your employees – salaries, dates of birth and positions. Be prepared to provide this.

2. Ask your pension provider to confirm their charges for administering new enrolees, and whether they will need to go into a different section of the scheme than existing scheme members. Also ask them to confirm the charge to apply for existing scheme members.

   Remember that since April 2015, the maximum fund management charge is 0.75% per annum.

3. If your pension provider confirms (in writing) that the scheme can be used for auto-enrolment, you can use it to enrol new employees and those who are not already part of the scheme.

   If existing scheme members are paying at least the qualifying contribution rate at their auto-enrolment date and the other necessary arrangements are in place, then they can be considered members of a qualifying pension scheme and there is no need to auto-enrol them.

   Alternatively, you may have a need to increase contributions to reach the relevant level required under auto-enrolment. This must be in time for their auto-enrolment date.

4. You will need to have a formal written agreement from your pension provider that the scheme may be used as an auto-enrolment pension scheme.

   If your current scheme can't be used for auto-enrolment, your pension provider may have alternative options you can use to enrol new employees and those who are not already part of the scheme.

> If using a payroll bureau, send them the full details of your auto-enrolment pension scheme well in advance of your staging date. You should also confirm whether there are any restrictions in the services they offer and that they are ready for your staging date.

Choosing a default investment

The pension scheme that you use for auto-enrolment must have a default investment option for employees who enter the auto-enrolment scheme, and do not want to choose their own investments. This is a legal requirement for auto-enrolment schemes.

A default investment option is intended to reduce the investment risk investors face as they get closer to retirement.

Review processes and systems

Review of recruitment policy and employment contracts

The extent you will need to do this will depend on the nature of your workforce and how you employ them.

If the workforce consists only of UK residents, employed directly by you, then the extent of your review might be minimal.

However, if your workforce is quite diverse and includes, for example, contractors, temporary staff, consultants, casual workers, or zero-hours workers to name a few, then take care to ensure your contract of employment is not too restrictive.

Many pension providers will not accept workers based outside the UK into their schemes. Therefore, if you do have workers outside the UK, you will need to consider what action is required to comply with your employer duties. A check with the pension provider should be carried out to see if they can accept non-UK residents. You may wish to segregate these types of worker from other employees you need to enrol.

Contractual enrolment

If you wish to contractually enrol employees into a pension scheme, it is likely you will need to make changes to employment contracts.

If you need guidance, speak to your legal adviser and build time into your plans to consult with your employees and their representative bodies.

Choosing software to do your worker assessments and reports

It is important to have sufficient information to perform the worker assessments and comply with the regulations, keep records and report against them as necessary. You will also need to give information to your pension provider about those employees who are enrolled, contributions to the scheme and about any employees who opt-out of your pension scheme.

Auto-enrolment software is available and can normally do this for you.

> If you use a Payroll Bureau, they may be able to do the worker assessments for you. Make sure that you talk to them early in the process about what services they are willing and able to offer and whether there will be any additional costs. If your Payroll Bureau is going to carry out all or part of the auto-enrolment process, then you will need to sign a new Service Level Agreement.

Employee opt-out processes

As an employer you cannot encourage your employees to opt-out of the scheme. However, if an employee wishes to opt-out, they can do so by contacting the pension provider.

Check with your pension provider to find out what their process is to refund any contributions you pay to them for any employees who decide to opt-out.

Payroll cycle and financial controls

The more frequent the payroll cycle is, the greater the risk is of errors happening.

Consider reviewing the payroll processes to reduce the risks involved. This may mean:

- Adjusting the date / time when time-sheets have to be submitted.
- Educating those who are responsible for time-sheet submissions so they know what they need to do and when. They need to understand the consequences to the company if things go wrong.

Data quality of workers

The accuracy and completeness of the data held is critical to making sure employers fully comply with the rules and to keeping your costs down.

Employers already provide regular reports to HMRC when they pay employees. Much of the data is required to do worker assessments, enrol them and pay contributions.

Incorrect and inaccurate data can lead to:

- An inability to complete worker assessments, enrol workers onto the pension scheme or pay the correct level of contributions. Failure to comply with these requirements could result in fines from The Pensions Regulator, as well as potential damage to the employer's reputation.
- A pension provider charging for the extra work they undertake in having to make corrections as a result.

As part of auto-enrolment preparation:

- Check all the employee data you need to comply with the rules and what your pension provider needs.
- Check the quality of your data.
- Check the completeness of your data.

All errors or gaps in information must be fixed before the Staging Date.

> If you use a payroll bureau, make sure that you work with them to ensure the data quality of workers.

Choose a payment strategy

Employers need to consider this as part of the overall pension strategy, and in particular when setting the auto-enrolment date at the end of any postponement period.

Specific issues to decide:

- How frequently an employer wants to pass contributions to their pension provider. This is important if payroll runs more frequently than monthly.
- Whether to pass contributions to the pension provider for newly auto-enrolled employees at the same time (or even later) as for existing scheme members, for the same pay period.
- When to set your auto-enrolment date at the end of the postponement period (if you use one) and how this works with your payroll cycle.

All of these things have consequences to business cash-flow, administration within payroll departments and the business's financial controls.

These financial controls must be good enough to record when contributions are deducted and when they are passed to the pension provider.

> Before committing to a particular payment strategy, ensure both the pension provider and payroll supplier are able to provide the services required.
>
> Typical issues to overcome include:
>
> - A lot of pension providers only accept contributions on a monthly basis. So even if you operate a more frequent payroll, you'll still need to make the deductions from pay and collate or aggregate the payment information to pass to your pension provider once a month.
> - There are rules around the latest date by which your contributions – and the contributions deducted from employees' pay – have to be passed to your pension provider. This is normally the same date by which you have to tell HMRC of any pay you've made – 22nd of the month following the month the deduction from pay was made (unless you don't pay by an automated service, then it's the 19th).

Getting ready to launch auto-enrolment

Communicate with your employees

Consulting with employees and their representative bodies

You should consult with your employees and their representative bodies if your proposed changes include either:

- Changing employee benefits, or
- Changing employee contracts of employment.

Allow up to ninety days for the consultation.

Changing employee benefits can include things like:

- Altering access rights to a pension scheme for existing employees.
- Changing or introducing a new pension provider.
- Changing the contribution rules you have for your existing pension scheme.

To help minimise objections to the changes from employees and their representative bodies, complete the consultation before any changes are implemented.

What to include in your employee communications

Employees should be kept up to date with the auto-enrolment process so they understand what changes are being made. Set an expectation when the changes will be made and what they can expect to happen as a result of those changes.

Things you might want to include are:

- Reasons why the changes are being made;
- The benefits of making the changes for employees;
- Any proposed changes to contracts of employment; such as:
  - Allowing contractual enrolment to the pension scheme, and
  - Using salary sacrifice as a contribution method and how employees can opt-out of the scheme if they wish.

- The proposed changes to the pension arrangements (or introduce them if this is new), such as:
  - Who the pension provider is,
  - When it starts from,
  - How people will be enrolled from that date,
  - How much the employer will contribute, how much employees will contribute, and
  - Whether there will be any changes to the default or nominated investment when auto-enrolment starts.
- Whether employees have the option to join the existing scheme before the changes are introduced and if so, the latest date by which this must be done.

If you are using a payroll bureau make sure to check with them who will be sending communications to your employees and whether you will incur any additional costs should they take on that responsibility.

What not to include in your employee communications

There are certain things the regulations prohibit employers from doing.

For example, you are not allowed to encourage or entice employees to opt-out. This includes telling your employees the date by which they have to opt-out if they don't want a contribution deduction from their pay.

Employers could face penalties or fines from The Pensions Regulator if they encourage employees to opt-out. Make sure you check The Pensions Regulator's website for more information on this critical matter.

Implement process and system changes

If you have decided to buy or use payroll/auto-enrolment software, you will need to:

- Confirm their final requirements;
- Agree when the software will be implemented (making sure it's early enough for them to be able to test and approve it before your Staging Date);
- Agree the final costs;
- Obtain the supplier's software service agreement, review and, if it is in order, sign it, and retain a copy of it.

Your pension provider will need new information from the business to enrol and receive payments. This may require reports from the HR and payroll software.

Be sure to communicate early to the HR and payroll software suppliers what information is to be included within a report and in what format. Unless the data is already available in the software and reports can be prepared, the HR and payroll suppliers may charge for making these reports available.

What if the auto-enrolment software supplier is different to the HR or payroll supplier?

If the HR or payroll software supplier does not provide the auto-enrolment services, the new supplier will need information from HR and the payroll software.

Employers will need to know what information is needed and then to tell the HR and payroll software supplier. Some HR and payroll suppliers may charge for making this information available in the required report style.

Testing the software and training employees

It sounds obvious, but it is often forgotten.

Employees who are responsible for auto-enrolment need to be fully trained on the new systems and any new software. A good way around this is to have a test run well in advance of the Staging Date. This should include exporting and importing of data routines to ensure the systems and the way in which the data is formatted are compatible.

They also need to understand the importance of completing the regular monthly auto-enrolment requirements.

Prepare pension arrangements

Keep your board of trustees informed

It is important that you discuss auto-enrolment with your board and keep them informed of the changes. There may be a process of approval that you need to go through and this will need to be taken into account when deciding on a timetable for introducing your auto-enrolment pension scheme.

Getting your pension arrangements set up

Once the pension strategy has been agreed and any time allowed for consulting employees has ended, it will be necessary to confirm the details of your pension strategy to the pension provider.

Things you need to confirm to the pension provider (all these will have been included in the pension strategy):

- That you want your pension provider to administer your scheme.
- The basis of the scheme (auto-enrolment or qualifying).
- The basis of enrolment (contractual or auto-enrolment for each section of the scheme).
- You accept the administration charges the pension provider has outlined.
- For each section of the scheme, the employer and employee contributions.
- If contributions will be made using salary sacrifice.
- The default investment proposal, if the pension provider standard is not used.
- The contribution payment strategy.
- The supplier of auto-enrolment services.
- Processes and agreements in place to report records of employees opting out of the pension scheme.
- The process for managing the refund of contributions.

Employers should ask the pension provider:

- To provide all the relevant pension scheme documentation to complete;
- To supply the auto-enrolment / qualifying scheme agreement you need to complete;
- To confirm the processes for enrolling employees, dealing with employee requests to opt-out of the pension scheme and contribution refunds. These should line up with how the employer intends to manage opt-out requests; and
- To reconfirm the services and support the scheme provider will offer, to help transition the scheme for auto-enrolment.

Launching auto-enrolment

Keep employees informed

Preparing your employee communications

Several different communications issued to the workforce are required, depending on:

- The category they fall within (eligible jobholders, non-eligible jobholder and entitled workers);
- Whether they are members of your existing pension scheme;
- The pension benefits you plan to provide to them;
- Whether you will be using a postponement period.

The Pensions Regulator's website contains details of what needs to be included in each communication. See www.thepensionsregulator.gov.uk

Understanding what your pension provider gives to your employees

The pension provider is also required to provide employees with information about the scheme they are being enrolled into. The basic information is referred to as the 'Terms and Conditions' of the pension scheme – essentially information about how the scheme works and the services employees can expect from the pension provider.

Assessing your workforce and giving employees information

The first time employers are legally required to assess the whole workforce is not until the Staging Date.

Hopefully however, you will have worked out the rough costs for the company and tested any auto-enrolment software being used before your Staging Date.

Once the Staging Date is reached, the employer duties officially start.

At the Staging Date, employers must do their first legally required workforce assessment.

The communications given to employees at this time will be dependent on whether you are using postponement. There is a period of six weeks to give employees the right information.

Where postponement is being used, on the last day of it, employers will need to do a second workforce assessment. From this date (known as the employee's auto-enrolment date), employers have six weeks to give employees the right information.

Making sure employee records are up to date

It is probable that auto-enrolment software will automatically record the actions the employer has taken and who for. Employers should make sure software also records what was given to employees and when this was supplied.

Enrol employees

Enrolling your employees

From the Staging Date, if postponement is being used, you have six weeks to give the pension provider the information they need to set up their administration records for the employees to be enrolled.

If an employee confirms they want to join the scheme earlier than the auto-enrolment date (i.e. they want to opt-in to the pension scheme), employers need to tell them the date they will be enrolled. It might be later than when they ask to join, depending on how close the end of your postponement period is and how it fits together with your payroll cycle.

Your pension provider is required to give its Terms and Conditions to the enrolled employees in the same six week window in which the employer provides enrolment information to the scheme provider.

Dealing with employee requests to opt-out of your pension scheme

Employees have a right to 'opt-out' of the scheme.

You must check if an opt-out request is correct and received within the period the opt-out request can be made. Employers therefore need to know when the opt-out period starts.

To opt-out, the employee must approach the scheme provider, who in turn will supply opt-out forms.

The employer will need to work out when to re-enrol the employee back into the scheme.

Passing over contributions to your pension provider

When your employees are enrolled, payroll needs to be prepared to ensure the correct deductions are being made.

Once your payroll has run, employers should prepare the contribution information to give to the pension provider.

Updating your payroll and accounts

If you are informed about an opt-out request from employees, you need to arrange to give this back to your employees no later than the next payroll run.

The pension provider will arrange for contributions to be refunded to the employer. Please note this may actually happen after the employee has been reimbursed.

Making sure your enrolment records are up to date

It is probable that any auto-enrolment software you use will automatically record the actions taken and who for. Auto-enrolment software should record:

- The employees' auto-enrolment date;
- When the employer gave the pension provider the employee information;
- When the pension provider gave enrolees their Terms and Conditions;
- The date any opt-out requests are received;
- The date opt-out employees will need to be re-enrolled;
- The date an opted out employee received a refund of their contributions.

Declaration of compliance

Declaration of compliance

All employers must do this. It tells The Pensions Regulator how you are complying with your employer duties and gives them information about how it has been done.

You need to complete the registration within five months of your Staging Date, or within five months of when the postponement period ends.

Communications can be undertaken by you as the employer, your payroll bureau or the pension provider.

The Pensions Regulator has more details and a declaration of compliance checklist on their website at www.thepensionsregulator.gov.uk

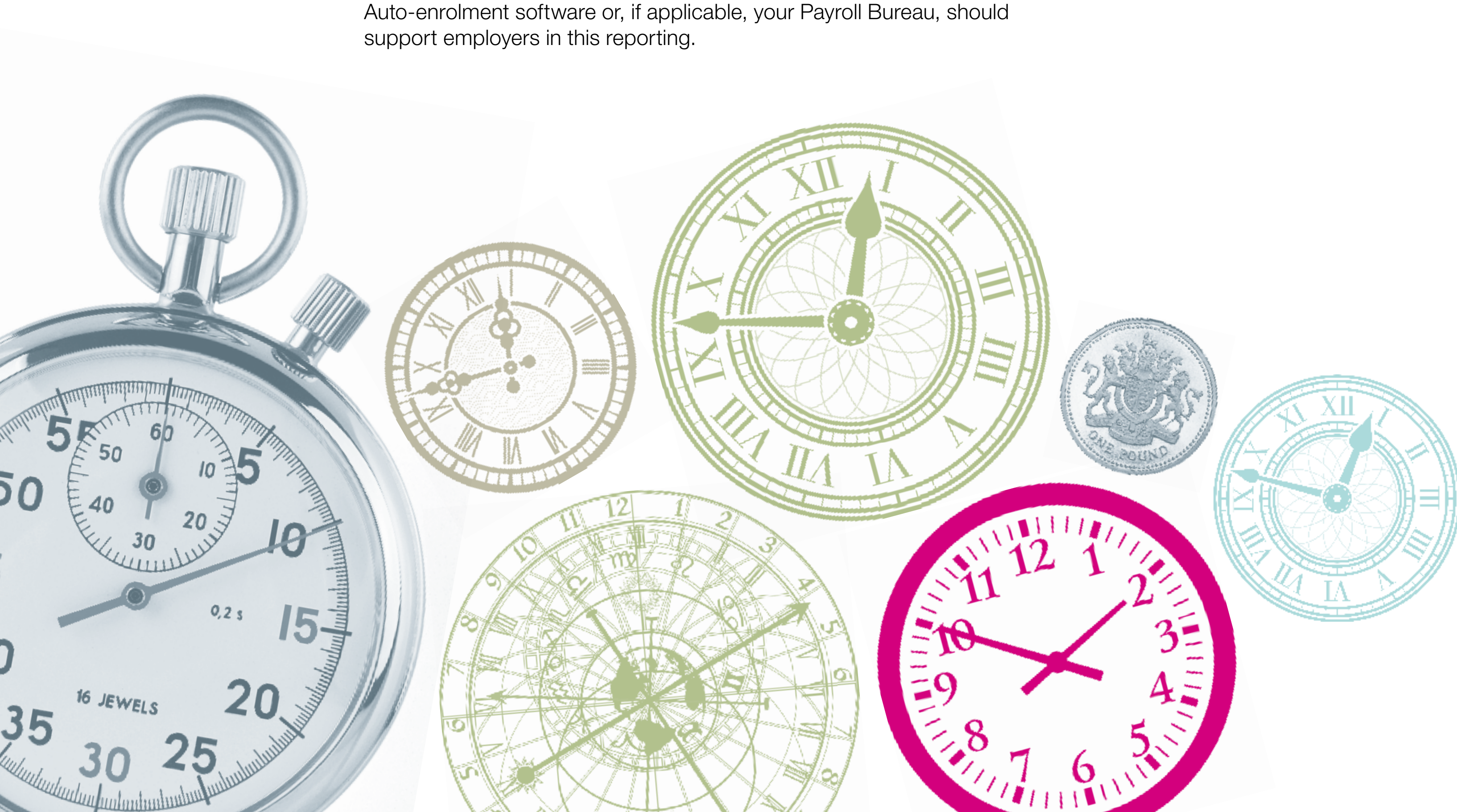
Contribution self-certification

If the definition of pensionable earnings is not the same as ‘qualifying earnings’, employers need to check and confirm the amount of contributions payable for each individual employee is at least as good as it would be if the ‘qualifying earnings’ and qualifying contribution rate option had been used.

This is referred to as the self-certification test. This test must be undertaken periodically - anything up to eighteen months and employers can change the period for each self-certification test.

Employers must keep records of each test to evidence that the basis they are running the pension scheme on is at least as good as the qualifying earnings basis.

Auto-enrolment software or, if applicable, your Payroll Bureau, should support employers in this reporting.



On-going actions

Repeating the tasks

There are seven key tasks:

1. Assess:
   - New employees on the date they start employment, and
   - Any existing employees who become old enough or start earning enough to be auto-enrolled at some point after your Staging Date.
2. Give the employee the appropriate communication, depending on:
   - The category they fall in (eligible jobholder, non-eligible jobholder or entitled worker);
   - The use of a postponement period; and
   - How employees have been grouped within any categories.
3. Enrol employees into the pension scheme at the appropriate time.
4. Deduct contributions from employee pay.
5. Pass information on about who is being enrolled and their contributions to the pension provider.
6. Deal with any changes if any employees decide to opt-out.
7. Keep records up to date.

Dealing with employee requests to change contributions or leave your pension scheme

If an employee asks to opt-out of the pension scheme, a valid request can only be made during the opt-out period. A refund of contributions deducted from pay during this period can be given, if applicable.

If an employee asks, after the opt-out period ends, to leave the scheme, or stop/reduce the contributions below the qualifying contribution amount, they may do so, if the employer and the scheme rules allow them to. The difference in this scenario is a refund of contributions cannot be made.

Employers will need to:

- Decide if the employer contribution should continue to be made, based on the contribution rules of the scheme;
- Make adjustments to the deductions from payroll;
- Record any changes to the employee's status as a qualifying member of the scheme; and
- If applicable, tell the pension provider of any changes to the contributions and the reason why.

Record keeping

Keeping your records

In most cases, you must keep a record of auto-enrolment for all enrolled employees for at least six years.

If an employer is using auto-enrolment software, this will undertake this action of their behalf.

Learning from others

Llandaff Diocesan Board

Janette Boyce, the Diocesan Accountant at Llandaff Diocesan Board of Finance, highlights the benefits of choosing a compliant pension scheme well before your staging date.

Prior to the introduction of the auto-enrolment legislation in October 2012, we decided to change our pension scheme on the advice of our pension advisor that better products were available on the market. Due to the advent of auto-enrolment it was an opportune time to move to a different scheme that was also auto-enrolment compliant. This change was completely managed by our advisor and it was a straightforward process for us.

All employees in the charity switched from the existing scheme to the new one, except one for whom it was not in her interest to switch as she was due to retire before our staging date. By changing pension provider now, we have saved time later and do not run the risk of being unable to find a provider by our staging date in November 2016, a risk that we are aware many small charities face.

As an employer we are already making above the required level of contributions, as are the members of the scheme. We believe that any additional costs to enrol new staff will therefore be minimal. Prior to our staging date, we will need to change our contract terms as our employees are currently only eligible to join the pension scheme after 6 months.

Top Tip: it is also very useful to spend time talking to experts and to share experiences with other small organisations. To this end I have attended a number of meetings and events on the subject of auto-enrolment. I have also signed up to the Pension Regulator's Newsletter – you can subscribe online by clicking the 'News by Email' button on the top right of The Pensions Regulator's homepage: www.thepensionsregulator.gov.uk

'By changing pension provider now, we have saved time later and do not run the risk of being unable to find a provider by our staging date in November 2016, a risk that we are aware many small charities face.'

Mango

Tim Boyes-Watson, Director at Mango, emphasises the importance of communicating changes to both the board and employees.

Mango used the introduction of auto-enrolment legislation as an opportunity to re-evaluate and 'tidy-up' our existing pension scheme, at the same time as ensuring that the charity complies with incoming legislation. We previously contributed 5% with no requirement for members to contribute. Only about a half of our employees were members, and the fast majority of these were not contributing anything themselves. Five employees also had personal stakeholder schemes that we contributed to, which was a heavy administrational burden.

We sought advice from our pension provider and an external advisor as we did not want to rely on one who had a vested interest. On the back of this advice, we decided to increase the contribution Mango makes to staff pensions, encourage staff members to save for their retirement by contributing to their own pensions, and only pay contributions into the Group Pension Scheme from July 2014.

We were advised that if together an employee and employer contributed 13%, this should give the employee a decent pension. We therefore designed a four tier contribution scale that aspired to reach this level of contribution, whilst ensuring that we met the statutory required level.

Band	Employer Contribution	Employee Contribution	Notes
1	0%	Phased out from 1 July 2014	
2	1%	Phased out from 1 July 2016	
3	3%		
4	5%		

We put together a thorough board report which outlined:

- Auto-enrolment legislation;
- What our exiting pensions arrangements were;
- The proposed changes to the scheme;
- The costs of introducing the changes and the pension scheme charges;
- A summary of the recommendations.

The board accepted our proposal without any changes. We then set about informing the staff of the proposed changes in detail. We ran role plays which explored different retirement scenarios for people that had saved for their pensions and those that hadn't. As a result, all employees that had previously opted out of the scheme (which were typically the younger employees) joined at above the minimum required contribution.

Remaining challenges

We are yet to enrol employees on temporary contracts and will have to do that by 2016/17. Our pension scheme front-loads its fees so it is not going to pay for employees on temporary contracts to join the scheme for a year or less. We will need to explore what options are available to ensure that we support those people on temporary contracts to save for their retirement.

Spitalfields Music

Damaris McDonald, Director of Finance and Operations at Spitalfields Music, highlights the importance of finding out the hidden costs of auto-enrolment.

I received a letter from the Pensions Regulator soon after I joined the charity in April 2015, asking who would be the main point of contact in the charity for auto-enrolment. From experience in my last position, I knew that it was essential that I start to plan what we need to do to ensure that we are ready for our staging date in 2017.

I have sought some initial guidance from an independent pension advisor. One of the key things I learned is that some pension schemes are not auto-enrolment compliant, and may decide not to accept new starters at auto-enrolment time. Our pension advisor asked us to collate information on:

- How many members of staff will need to enrolled on the scheme;
- What their salaries are;
- Their job titles;
- Their date of birth.

This information will be passed onto our pension provider so that they can investigate and tell us whether our existing scheme can be made into a qualifying one. Otherwise we face trying to find an alternative scheme, and the possibility of running two schemes concurrently: our existing scheme and the new qualifying scheme.

I am waiting to talk to the board – specifically our finance committee – until I have a full report from the pension's advisor. We will need to make a decision on whether we stagger pension contributions made by the charity and the staff member, and how we will afford the contributions.

Predicted challenges

We are quite a youthful organisation; a lot of people in the team are under 30. Many are in their first or second job, or have just transitioned into the sector. The cost of living in London is high, so to see a percentage of their pay removed for something that seems in the distant future is a hard sell.

We outsource our payroll on a pro-bono basis. I have contacted our payroll provider to ask them whether they will be able to fulfil the obligations with HMRC to ensure our staff are on the pension scheme correctly, i.e. that they haven't opted out since last month. They have quoted that this could cost around £30 a month. Although this sounds like a relatively small fee, coupled with the charges that my pension advisor says may be introduced just to have a qualifying pension scheme at all, the costs will add up.

It may be possible for me to undertake the HMRC reporting myself; however, this adds further, time-consuming steps to the monthly payroll routine:

- I will need to submit my payroll amendments as usual;
- The payroll company will return the forms to me;
- I will need to submit this information through my pension provider's gateway to see if people have opted out of the scheme;
- I will then send any amendments relating to the pension back to our payroll provider; and
- The payroll provider will then run the payroll.

Directory of pensions providers

The following pension providers have stated that they will consider applications from small employers:

National Employment Savings Trust (NEST)
www.nestpensions.org.uk

NOW: Pensions
www.nowpensions.com

The Peoples Pension
www.thepeoplespension.co.uk

Available resources

The Pensions Regulator
www.thepensionsregulator.gov.uk

The Pensions Advisory Service
www.pensionsadvisoryservice.org.uk

Pension Quality Mark
www.pensionsqualitymark.org.uk

National Association of Pension Funds
www.napf.co.uk

National Employment Savings Trust (NEST)
www.nestpensions.org.uk

Charity Finance Group
www.cfg.org.uk

Notes

Charity Finance Group (CFG)
15-18 White Lion Street
London N1 9PG
www.cfg.org.uk
info@cfg.org.uk
Telephone: 08453453192

Registered charity no. 1054914
Company no. 3182826