Pension auto enrolment duties - Ignore them at your peril!

You may have set up and dealt with pension auto-enrolment but your duties as an employer does not end there – there are ongoing duties and you also need to be aware of a number of changes happening in the near future, in particular increases in contributions. In this factsheet we have summarised the main duties and continuing obligations in respect of pension auto-enrolment.

Facts

1. To date more than 800,000 employers have successfully enrolled more than 8.5 million workers into a workplace pension.
2. In 2012, 55% of staff were saving into a workplace pension. In 2016 that figure had increased to 78%.
3. The Pension Regulator, in a recent report stated that 70% of all new businesses will have staff they need to put into a workplace pension.
4. From October 2017, all new start-up businesses with new staff will have pension auto-enrolment duties straightaway – they will not have a staging date in the future.

Ongoing Duties

Employers have ongoing duties after a workplace pension has been set up. As a payroll provider VAP fulfils some of these duties on an employer’s (client’s) behalf but you should be aware of the following main responsibilities.

1. Continuously assess staff at each payroll run (assessment). This means sending notices to new employees, new eligible jobholders and dealing with non-eligible jobholders and entitled workers who wish to opt in to the workplace pension.
2. Ensuring contributions and payroll information is uploaded to the Pension Scheme timeously and that contributions are paid on time.
3. Keeping records of assessments and contributions.
4. Every 3 years staff who initially opted out must be automatically enrolled back into a workplace pension.
5. Re-enrolment - After 3 years of their staging date, EVERY employer must undergo a re-enrolment process, similar to the one done at the staging date when the workplace pension was set up, including dealing with point 4 above.
6. Employers must complete a re-declaration of compliance for the Pension Regulator within 5 months after re-enrolment in 5 above.
7. Certification - If your pension scheme uses one of the 3 sets of contributions called Tier 1, 2 or 3 certifications then at least every 18 months you need to create a certificate to say you are doing this and that it meets the relevant criteria. The certificate must be kept for 6 years after expiry and must be available to the Pension Regulator or to any worker on request.
8. Increases in contributions – an employer must comply with increases in contribution rates as set out by the Pension Regulator – see below.

Increase in Contributions

Pension contributions are based on qualifying earnings. Qualifying earnings depends on the scheme chosen. It is either:

- The amount earned before tax between £5,876 and £45,000 a year for 2017/18 – so called banded earnings. If you use qualifying earnings to work out contributions you contribute a percentage of a worker's gross annual earnings (including overtime and bonuses) that fall between £5,876 and £45,000. The first £5,876 of their earnings isn't included in the calculation. For example, if a worker earns £25,000 their qualifying earnings would be £19,124. The maximum qualifying earnings for pension in 2017/18 will be £39,124 (£45,000-£5,876).

or

- The entire salary or wages before tax – sometimes called tier 1,2 or 3 certification. This is based on total gross salary, with or without overtime and bonuses depending on the tier certification.

N.B. The above figures will change from April 2018

The employer will choose how to work out the workers earnings and decides the minimum and maximum amounts of contributions the worker and the employer can pay in as long as the total minimum is reached. A worker can pay in less than their minimum as long as the employer puts in enough to meet the total legal minimum.

Pension Contribution levels will rise on 6 April 2018 and again on 6 April 2019. You will need to inform employees in good time to ensure that they are aware of the increases and make adequate provision.

The table below shows increases and dates when contribution levels will rise based on pension schemes that do not use certification and pension contributions are based on qualifying banded earnings i.e. between £5,876 to £45,000 per year (£490 to £3,750 per month) or (£113 to £865 per week) for 2017/18.

Contributions based on banded qualifying earnings				
Date effective	**Employer minimum contribution**	**Staff contribution (net)**	**Government (tax relief) contribution**	**Total minimum contribution**
Until 6 April 2018	1%	0.8%	0.2%	2%
6 April 2018 - 5 April 2019	2%	2.4%	0.6%	5%
6 April 2019 onwards	3%	4%	1%	8%

The table below shows the contribution levels for Tier 1 certification scheme. That is, the % is based on a worker's basic gross pay from the first pound and excludes overtime, bonuses and commission.

Contributions based on TIER 1 earnings				
Date effective	**Employer minimum contribution**	**Staff contribution (net)**	**Government (tax relief) contribution**	**Total minimum contribution**
Until 6 April 2018	2%	0.8%	0.2%	3%
6 April 2018 - 5 April 2019	3%	2.4%	0.6%	6%
6 April 2019 onwards	4%	4%	1%	9%

The tables above are based on the employee paying the net contribution at 80% from their salary and the Government adding tax relief at 20%. That is, relief for tax is given at source. For example, up to 6.4.2018 staff minimum contribution is 1% - 80% (0.8%) of this is deducted from their salary and the Government gives the employee 20% (0.2%) in their account with the Pension Provider.

You can see from the above that employee contributions will jump from 0.8% currently to 2.4% from April 2018 and to 4% from April 2019.

Compliance and enforcement

Most employers are meeting their obligations but some small and larger businesses have not and have been fined by the Pensions Regulator and their names listed. The Pension Regulator will take enforcement action to ensure that staff receive the pensions they are entitled to. If you meet your obligations there should be nothing to worry about and we are always here to help.