AWFM Fact File

"Auto Enrolment for the Employer"

AW Financial Management LLP

Financial Planning
Independent Financial Advice
Investment & Wealth Management

River House, 1 Maidstone Road, Sidcup, Kent, DA14 5RH
Tel: 01322 669 059 www.awfm.co.uk

Auto Enrolment (AE) is the latest attempt to get the UK workforce saving more for their retirement. There is a lot of information available on the subject of AE out there but this Fact-File seeks to summarise some of the key points. Oversight of AE schemes is the remit of the Pensions Regulator (PR) www.thepensionsregulator.gov.uk

Staging Date
Each employer will be wanting to know when the new legislation affects them. The staging date is the date from which your firm has to be ready for AE. HMRC will write to each firm 12 months before their staging date, to give them sufficient time to organise themselves. You can establish your staging date by entering your PAYE reference number into the PR site. Having done it ourselves, our staging date is 1st July 2016.

Payroll System & Software
A key requirement will be for your payroll software to be able to support the requirements of AE. Pension Plan providers have been developing software solutions to help firms in this regard or alternatively "middleware" software is also now becoming more and more available.

If you have a Company Pension Scheme already
You will need to check that the scheme that you have already meets the qualifying criteria for an AE scheme. It almost certainly won't automatically comply but existing providers will probably be keen to retain the business and will be making strides to ensure that the existing scheme can be maintained.

Which employees is this relevant for?
Workers who are between the ages of 22 and State Pension age are eligible to be included in the scheme. Employees also need to work in the UK and their earnings must be in excess of the AE trigger (currently £9,440 per annum). Part-time employees are not excluded from this eligibility. The following table also shows that employees in certain categories have the right to opt in if they want to:

Annual earnings (2013/4)	**Age**		
	16-21	**22 to state pension age**	**State pension age to 74**
Less than £5,668	Has a right to join the pension scheme		
£5,668 to £9,440	Has a right to opt in		
Over £9,440	Has a right to opt in	Automatically enrol	Has a right to opt in

Contribution Levels
Contributions for Employers start of low and increase from 1st October 2018 onwards as per the following table:

Date	**Employer minimum contribution**	**Total minimum contribution**
Employer's staging date to 30 September 2017	1%	2%
1st October 2017 to 30th September 2018	2%	5%
1st October 2018 onwards	3%	8%

As a firm you will need to decide what elements of staff pay are used to calculate pension contributions, subject to any overriding legislative requirements.

It should be noted that "Qualifying Earnings" for the purposes of AE are earnings between £5,668 and £41,450. If pay is in excess of the upper limit there is no requirement to base pension contributions on full earnings. Existing schemes will base contributions on percentage rates of pensionable pay (however pensionable pay is defined). In recognition of this, employers with existing schemes are able to self-certify that their scheme meets the minimum requirement. One way of doing this is for employers to certify their scheme with respect to one of the alternative requirements which comprise 3 sets:

Set 1 – A total minimum contribution of at least 9% of pensionable pay (at least 4% of which must be the employer's contribution).

Set 2 – A total minimum contribution of at least 8% of pensionable pay (at least 3% of which must be the employer's contribution), provided that pensionable pay constitutes at least 85% of earnings (the ratio of pensionable pay to earnings can be calculated as an average at scheme level).

Set 3 – A total minimum contribution of at least 7% of pensionable pay (at least 3% of which must be the employer's contribution), provided that all earnings are pensionable.

Choice of Provider
Firms with existing pension schemes will almost certainly be courted by their existing pension scheme providers to roll their existing scheme into an AE compliant scheme or to self-certify as detailed above.

Smaller firms are unlikely to have a significant choice of which provider to use. The National Employment Savings Trust (NEST) will provide an option for smaller firms who cannot access more options out in the marketplace. NEST also creates a benchmark for other schemes around issues such as investment choice and charges.

Charges for NEST have now been clarified. The annual management charge (AMC) is 0.3% per annum. There is also a charge levied on every contribution into the scheme too which is 1.8%.

The investment fund choice within NEST will be up to each individual although in common with existing group schemes, a default fund will almost certainly be available to provide for those who don't want anything more complex or focussed. An Ethical and a Sharia fund are available as well as a Higher Risk fund, Lower Growth fund and a Pre-Retirement fund. Investors will also have the option of investing in a 'Target Date' fund which seeks to manage the pension investments and risk taken to suit the likely year the pension benefits will be drawn. NEST have a fund for ever year possible.

Our experience of medium sized pension schemes has been that they can be operated with annual management charges of between 0.6% and 1% per annum with no initial charges. In the early years the NEST initial charges will negatively affect returns but as funds build, the lower annual management charge should aid returns. The key factor affecting returns however could well be the choice of the underlying funds and their relative performance.

Advice
The Pensions Minister is keen to promote the argument that Employers and Employees do not require advice in respect of workplace schemes. For this reason advice given to Employers must be fee based and charged direct to the Employer whether in the setting up stage or in the ongoing management process. Existing schemes will probably be able to maintain their link with their existing product provider but there will need to be some interaction and changes, to ensure that the scheme is compliant. Commission based schemes will be able to continue for the time being.

If you have any questions or need an independent review of your pension arrangements, please contact us to discuss your situation further. AW Financial Management LLP is an Independent Financial Adviser regulated by the Financial Conduct Authority.

Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.