

Automatic Enrolment and Workplace Pension Reform – the facts

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Workplace pension reform

Millions of people are not saving enough to have the income they are likely to want in retirement. Life expectancy in the UK is increasing and at the same time people are saving less into pensions. These are challenges that need to be addressed.

The Pensions Act 2008 laid the foundations for a fundamental reform of workplace pensions, requiring employers to automatically enrol their eligible jobholders into a qualifying pension scheme and contribute to their pensions. Automatic enrolment will help to address the issues that prevent people from saving into a pension scheme, such as:

- pensions saving being complicated and confusing;
- people simply not getting around to it;
- a lack of suitable pension products being available for people on low to moderate incomes; and
- lack of employer pension provision, particularly in smaller firms.

A new pension scheme, NEST (National Employment Savings Trust) has been established, it is available to any employer who chooses to use it. This will enable all employers to provide a pension scheme for their workers, either using NEST, their own scheme or another provider. NEST will cater particularly for the needs of small employers and low to moderate earners.

Through the introduction of automatic enrolment, which will be implemented from 2012 onwards, the Government hopes to see from five to eight million people newly saving or saving more for their retirement.

There are three main delivery partners who have responsibility for ensuring that the programme is rolled out and maintained in the most effective way possible:

- [Workplace Pension Reform](#), which is part of the Department for Work and Pensions (DWP), is responsible for the policy, legislation and overarching communications for the changes.

- [The Pensions Regulator \(TPR\)](#) is responsible for maximising employers' compliance with their new duties.
- [NEST Corporation](#) (the National Employment Savings Trust Corporation) is a pension provider available to all employers who want to use it. NEST has been designed to complement existing pension provision.

Automatic enrolment – the basics

From 2012 all employers with one worker or more will be required to enrol all eligible jobholders into a workplace pension scheme and make an employer contribution towards it. This is known as automatic enrolment. The scheme must be a qualifying scheme, meaning it must meet certain government standards. This is the first time that employers have been required by law to contribute to their workers' pensions.

Currently, 'eligible jobholders' are workers aged at least 22 and under state pension age who are working in the United Kingdom and who earn more than the minimum earnings threshold (currently set at £5,035). As a result of the Making Automatic Enrolment Work Review, the Government is bringing forward legislation to introduce an earnings trigger (to be set initially at £7,475) so that only those who earn over this amount will be automatically enrolled by their employer.

'Jobholders' are workers aged at least 16 and under 22 or between State Pension Age and under 75 who are working in the United Kingdom and who earn more than the minimum earnings threshold. They will be able to choose to join a pension scheme, known as opting in, and will qualify for the employer contributions.

Those who earn below the automatic enrolment minimum earnings threshold can choose to join workplace pension saving and their employer can choose to contribute.

People can choose to leave the scheme at any time, however, they will still be able to re-join pension saving, should they choose. Employers will also have a duty to re-enrol their eligible jobholders approximately every three years, so that those who left the scheme will have the opportunity to reconsider pension saving.

Timings

These reforms will be introduced over a period of four years, starting from 2012. This extended time frame is known as staging, each employer has a specific staging date, which will give employers time to get prepared and have systems in place. The largest employers will be staged in first, followed by medium then small employers. Their staging date will be triggered by their Pay As You Earn (PAYE) scheme. (Please see annex A).

Choosing a Pension scheme for automatic enrolment

Employers need to choose a pension scheme that meets certain Government standards. To qualify, minimum contributions must be made into the scheme, or it must provide a minimum rate at which benefits will build up.

Options available to an employer when choosing their scheme are:

- use an existing pension scheme if it qualifies;
- amend an existing scheme to meet the qualifying criteria – employers with existing pension provision that does not meet the minimum qualifying criteria may decide to amend the scheme so that it qualifies;
- set up a new pension scheme which meets the qualifying criteria; and/or
- use NEST – any employer can choose to use NEST for some or all of their staff.

An employer can also use a combination of these options for different areas of their workforce.

Regardless of the scheme the employer chooses, they must give their workers factual information such as: that they are going to be enrolled into a pension scheme; what that pension scheme is and the amount of contributions they will have to pay.

Contributions

Contributions to defined contribution pension schemes will be gradually increased throughout the staging period and up to October 2017. This is known as phasing.

- From October 2012 to September 2016 the total contributions from the employer and jobholder will be 2 per cent, with the employer paying a minimum of 1 per cent.
- From October 2016 to September 2017 the total contributions from the employer and jobholder will be 5 per cent, with the employer paying a minimum of 2 per cent.
- From October 2017 total contributions from the employer and jobholder will be 8 per cent, with the employer paying a minimum of 3 per cent.
- By 2017 approximately 1 per cent of the jobholder's contributions will be from tax relief.

The minimum contribution level is just that, a minimum. Employers will be able to contribute more than the minimum if they wish: many already do.

For defined benefit and hybrid pension schemes, alternative arrangements apply.

NEST

NEST is critical to the success of automatic enrolment. NEST is open to all employers and has been designed to offer simple, low cost pension provision to those on low to moderate earnings, thus addressing the needs of small employers in particular.

Although NEST will generally be subject to the same legal requirements as other occupational pension schemes, certain differences will apply, in particular:

- it will accept all employers who wish to use it;
- to limit its impact on the existing market – there is a cap on member contributions and it cannot transfer pension rights from or to other schemes. The Government will review these limitations in 2017;
- it will offer the same low charge to all members, regardless of whether they work for a small, medium or large employer. Its low charge – broadly equivalent to a 0.5 per cent Annual Management Charge – is comparable with those currently available to members of large workplace schemes; and
- it will ensure employer and member representation. As NEST is such a large and diverse scheme it will not have traditional member-nominated trustees but employer and member panels.

Employer registration

When an employer has completed the automatic enrolment process they will then have to register with The Pensions Regulator.

This is to show that they have met their automatic enrolment responsibilities. It will be used to identify employers who might need further support, and follow up on those who have not complied with their responsibilities.

The Pensions Regulator will be sending letters out to employers in advance of their staging date. These letters will inform employers how they can find out more about what their duties are and how to comply as well as when their duties will apply. They are intended to give the employer time to prepare themselves to automatically enrol their eligible jobholders. A further letter will be sent out as a final reminder to those employers who are not already prepared for their duties and automatic enrolment. Before their staging date employers will need to choose a qualifying pension scheme and register with the scheme provider.

Ten million individuals are expected to be eligible for automatic enrolment, so pension providers will be processing an unprecedented amount of workers. In order to ensure that the automatic enrolment process works smoothly and that workers are automatically enrolled on time, employers will need to approach their chosen pension provider in plenty of time to ensure their required scheme is set up before their staging date.

Employers will be required to re-enrol eligible jobholders who have left a qualifying pension scheme every three years, with some flexibility around this date, and they will need to re-register with The Pensions Regulator once they have done this.

Next steps

Communication and information will be needed to support the roll out of automatic enrolment and will increasingly become available from 2011. Specific information will be available to meet the needs of employers, their intermediaries and workers. The Pensions Regulator will provide information about how employers can comply with their new duties through on-line detailed guidance and interactive tools that are currently being developed. Information for individuals will be available on the Directgov website.

Timeline for review recommendations

The [Making automatic enrolment work](#) review report was published in October 2010. The report confirmed the need for automatic enrolment and NEST. It supported continuation of the reforms, while making some suggestions to improve the programme.

Some of the recommendations made by the review team will require changes to The Pensions Act 2008. To achieve this, a Bill has been introduced to Parliament. We anticipate this process will be completed during 2011. There will then be a period of consultation with stakeholders and the public, to set any new Regulations required. The table below sets out the major changes that will require legislative amendment following the Making Automatic Enrolment Work Review.

Legislation	Current	Bill
Earnings threshold	£5,035	£7,475
3 month waiting period	No waiting period	Option of up to 3 month waiting period available to all employers
Early automatic enrolment for large employers in the first two tranches	Currently not able to enrol prior to October 2012	Given option to enrol from July 2012
Flexibility around re-enrolment	1 month flexibility around re-enrolment	More flexible re-enrolment timelines

Other useful websites

[Workplace Pension Reform](#) (part of the Department for Work and Pensions)

[The Pensions Regulator](#)

[NEST](#)

[Directgov \(Build a better future\)](#)

[Business Link](#)

Annex A - Staging dates by employer size

Employer (by PAYE scheme size or other description)	Staging date
120,000 or more	1 Oct 2012
50,000-119,999	1 Nov 2012
30,000-49,999	1 Jan 2013
20,000-29,999	1 Feb 2013
10,000-19,999	1 Mar 2013
6,000-9,999	1 April 2013
4,100-5,999	1 May 2013
4,000-4,099	1 June 2013
3,000-3,999	1 July 2013
2,000-2,999	1 Aug 2013
1,250-1,999	1 Sept 2013
800-1,249	1 Oct 2013
500-799	1 Nov 2013
350-499	1 Jan 2014
250-349	1 Feb 2014
Less than 50 with the last 2 characters in their PAYE reference numbers 92, A1-A9, AA-AZ, B1-B9, BA-BY, M1-M9, MA-MZ, Z1-Z9 or ZA-ZZ	1 Mar 2014
240-249	1 April 2014
150-239	1 May 2014
90-149	1 June 2014
50-89	1 July 2014
Less than 50 with the last 2 characters in their PAYE reference numbers BZ	1 Aug 2014
Less than 50 with the last 2 characters in their PAYE reference numbers 00-01	1 Sept 2014
Less than 50 with the last 2 characters in their PAYE reference numbers 02-04	1 Oct 2014
Less than 50 with the last 2 characters in their PAYE reference numbers 05-07, 0A-0Z, C1-C9, CA-CZ, D1-D9 or DA-DZ	1 Nov 2014

Employer (by PAYE scheme size or other description)	Staging date
Less than 50 with the last 2 characters in their PAYE reference numbers 12-15, 2A-2Z, F1-F9, FA-FZ, G1-G9 or GA-GZ	1 Feb 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 16-20, 3A-3Z, H1-H9 or HA-HZ	1 Mar 2015
Less than 50 with the last 2 characters in their PAYE reference numbers I1-I9, IA-IZ	1 April 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 21-25, 4A-4Z, J1-J9 or JA-JZ	1 May 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 26-31, 5A-5Z, K1-K9 or KA-KZ	1 June 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 32-38, 6A-6Z, L1-L9 or LA-LZ	1 July 2015
Less than 50 with the last 2 characters in their PAYE reference numbers N1-N9 or NA-NZ	1 Aug 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 39-47, 7A-7Z, O1-O9, OA-OZ, P1-P9 or PA-PZ	1 Sept 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 48-57, 8A-8Z, Q1-Q9, QA-QZ, R1-R9, RA-RZ, S1-S9, SA-SZ, T1-T9 or TA-TZ	1 Oct 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 58-69, 9A-9Z, U1-U9, UA-UZ, V1-V9, VA-VZ, W1-W9, WA-WZ	1 Nov 2015
Less than 50 with the last 2 characters in their PAYE reference numbers 70-83, X1-X9, XA-XZ, Y1-Y9 or YA-YZ	1 Jan 2016
Less than 50 with the last 2 characters in their PAYE reference numbers 84-91 or 93-99	1 Feb 2016
(a) Less than 50 unless otherwise described or (b) no PAYE scheme	1 Feb 2016
New employer (PAYE income first payable between 1st April 2012 and 31st March 2013)	1 Mar 2016
New employer (PAYE income first payable between 1st April 2013 and 31st Dec 2013)	1 May 2016
New employer (PAYE income first payable between 1st Jan 2014 and 30th Sept 2014)	1 June 2016
New employer (PAYE income first payable between 1st Oct 2014 and 30th June 2015)	1 Aug 2016
New employer (PAYE income first payable between 1st July 2015 and 31st March 2016)	1 Sept 2016

The Regulator will write to all employers around 12 months before their staging date so that they know when to automatically enrol their eligible jobholders. Three months before the employer's staging date the Regulator will write again to remind them of the new duties and the need to register.

Employers with more than one PAYE will start their duties for all their PAYEs at the same time, on the staging date of their largest PAYE.