



PENSION  
REMORE

For employers

## Let's work it out – factsheet 2

From October 2012, the new employer responsibilities introduced by the Pensions Act 2008 will start. This factsheet sets out what these are, what you'll be legally required to do, and exactly what you should be thinking about now, to make sure you're fully prepared for auto-enrolment and the pensions contributions you'll be expected to make.

All employers (apart from single-person companies) will have to take action.

### A brief reminder of where we are

This factsheet covers our latest understanding of the legislation and proposals, which may change in the lead-up to 2012.

One of the main aims of pensions reform is to get more people to save more for retirement.

The government has decided that one of the best ways to do this is by introducing legislation requiring employers to automatically enrol all eligible jobholders into a pension scheme that meets certain requirements, unless they're already an active member of a 'qualifying' scheme.

That pension scheme may be a private pension scheme.

The Pensions Commission found that up to 12 million people weren't saving for retirement.

Source: [www.nestpensions.org.uk](http://www.nestpensions.org.uk), January 2011

If your scheme is a defined benefits scheme, the conditions that apply for it to be a qualifying scheme are different to the conditions described here. Please speak to your financial adviser for advice on this.

## What are the main requirements?

There are two main requirements:

- You'll have to automatically enrol all eligible jobholders, aged at least 22 but under state pension age and earning at least £7,475 (in 2011/12 terms), into a pension scheme which meets certain criteria.
- The minimum level of contributions that must be paid is 8% of the jobholder's qualifying earnings. You have to pay at least 3% of this, and the jobholder pays any balance up to the full 8%. The jobholder's contribution will include tax relief. For example, if you pay the minimum 3%, the jobholder's minimum contribution would be 4% of qualifying earnings, plus 1% tax relief.

If a jobholder decides they don't want to remain in the scheme, they can opt out within a certain period and you (and the jobholder) will receive a refund of contributions paid. You won't then be required to pay any further contributions for them. This is known as *opting out*. However, you'll need to automatically re-enrol those who decide to opt out every three years to give them the chance to rejoin the scheme in the future. Once they've opted out, jobholders must wait 12 months before they can decide to rejoin. And if they do decide to rejoin, you'll have to pay the minimum contribution.

You can select any private pension scheme (as long as it meets qualifying scheme criteria) or you can use the new National Employment Savings Trust (NEST). We'll cover this later.

## What you should be thinking about?

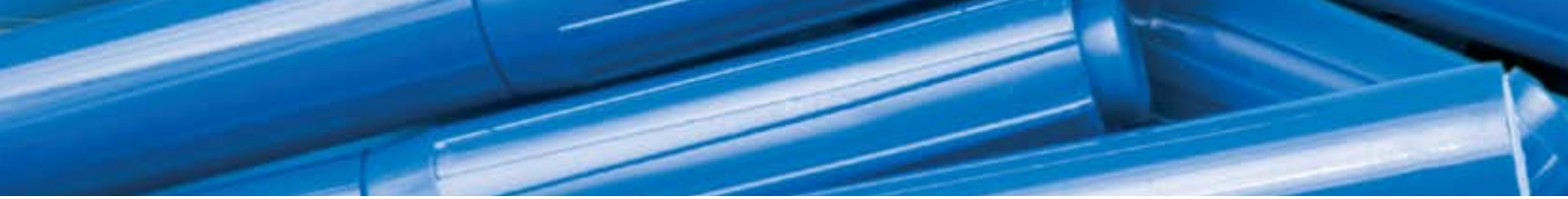
Here we've listed what you should be thinking about and then we'll give you more detail about what it means.

### You have an existing pension scheme for your employees

- Do you want to use your existing scheme, the National Employment Savings Trust (NEST) or both?
- Will your existing scheme meet all the qualifying and automatic enrolment criteria?
- If not, what changes will you need to make? (For example, increase contributions)
- Have you worked out how much extra the new responsibilities will cost?
- Will you extend other benefits you currently provide to any new members?
- Have you considered starting a pension campaign to increase pension scheme take-up?
- Do you want to bring forward your staging date?
- Are your records good enough to identify which employees you'll have to enrol if they aren't currently eligible for your existing scheme?
- Have you planned your route map to 2012 and beyond?

### You don't have any pension scheme for your employees

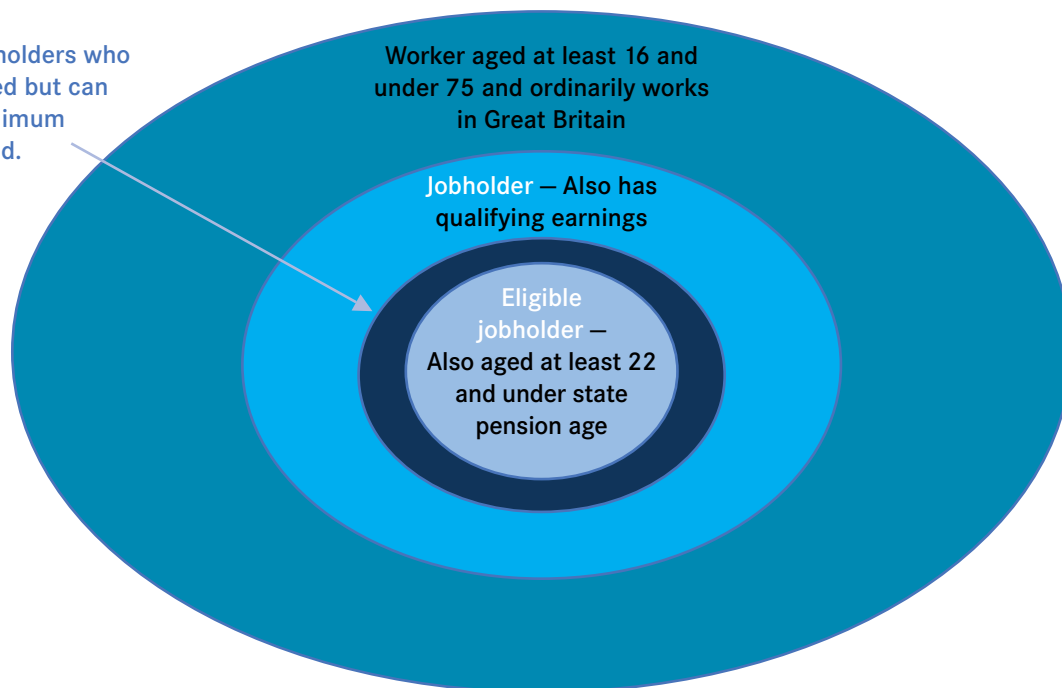
- Do you want to set up a private pension with a pension provider or use NEST?
- Do you have any recruitment plans beyond 2012? If so, have you thought about the extra pension contribution costs this will bring?
- Are you prepared to pay more than the minimum employer contribution rate of 3% of qualifying earnings?
- Have you worked out how much extra this will cost?
- Do you want to phase in contributions now or wait until your staging date?
- Have you planned your route map to 2012 and beyond?



## Who exactly is a 'jobholder'?

The new legislation defines working individuals as workers and jobholders, with employers having different duties depending on the criteria that apply to each category. The diagram below sets out these criteria.

Those eligible jobholders who aren't auto-enrolled but can opt in and the minimum contribution is paid.



## About automatic enrolment

### What are the criteria for automatic enrolment?

Any jobholder aged at least 22 and under state pension age who earns at least £7,475 (in 2011/12 terms) is classed as an 'eligible jobholder' and must be enrolled automatically into a pension scheme unless they're already an active member of a qualifying scheme, which includes NEST.

Eligible jobholders who aren't an active member of a qualifying scheme at the time of their automatic re-enrolment date must be re-enrolled automatically.

Jobholders aged at least 16 and under 22, or at least state pension age but under 75, or aged at least 22 and under state pension age who earn under £7,475 must be given the chance to join a qualifying scheme if they want to. If they choose to opt in to the scheme, then you'll also have to make the minimum contributions.

Workers aged at least 16 and under 75 who earn below the **qualifying earnings threshold** (£5,715 based on 2010/11 figures) must be given the opportunity by the employer to join a registered pension scheme (not necessarily a qualifying scheme), but you won't have to contribute on their behalf.

### What are qualifying earnings?

They're a band of earnings, between £5,715 and £38,185 (based on 2010/11 figures) within a 12-month pay period, and include:

- salary or wages
- commission
- bonuses
- overtime
- statutory payments, for example maternity, sick pay and so on

The earnings band will be expected to increase by 2012. Qualifying earnings are important to think about, as most employers don't base their existing contributions on a band of total earnings.

Please note that the automatic enrolment date for an eligible jobholder is the earlier of:

- the employer's staging date
- the day the jobholder joins the employer, or
- the day the jobholder first becomes an eligible jobholder



### Is there any flexibility?

You may be able to put off a jobholder's automatic enrolment date, for a maximum of three months. This may help employers who see a high turnover of staff.

### What type of scheme can be used to auto-enrol?

A qualifying scheme (see below) where jobholders are auto-enrolled, and re-enrolled every three years. Members don't have to make any decisions or do anything to join.

You can also use a combination of different qualifying pension schemes for different categories of employees.

#### What defines a qualifying scheme in relation to a jobholder?

- It's a registered occupational or a personal pension scheme (including stakeholder pensions).
- The employer's agreed contribution is at least 3% of the jobholder's qualifying earnings.
- The total of the employer's and jobholder's agreed contribution is 8% of the jobholder's qualifying earnings.

#### What defines an auto-enrolment scheme?

A qualifying scheme which the employer can use to opt-in, auto-enrol and re-auto-enrol their jobholders. The member doesn't have to make any decisions (for example, choosing an investment fund).

### Who is a worker?

Whether a jobholder is a worker, and therefore falls under the requirements, is defined in the Pensions Act.

A worker is defined as an individual who has entered into, or works under, a contract of employment or any other contract by which they undertake to do work or perform services personally within Great Britain. It doesn't matter whether it's a temporary, fixed-term or part-time contract or whether the contract is express or implied, oral or written. Agency workers are specifically included within the system.

Special rules apply to company directors, members of the armed forces, parliamentary staff, police officers, people working on vessels, and those in offshore employment. Genuine professional-client or business-customer relationships are explicitly excluded from the system.

Further clarification as to which categories of workers are, or aren't, included within the system may be provided in future regulations.

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### What will NEST look like?

It will be a large defined contribution occupational pension scheme, aimed at low- and medium-earning employees who don't have access to a pension scheme through their employer.

It's expected to be quite basic, e-based where appropriate, with few choices for employees.

It will be likely to include a low-risk default investment fund, with a lifestyle option and a maximum of 10 funds.

### When will employer responsibilities start?

The new employer responsibilities start from October 2012 and will be staged in over four years.

Employer size	Staging date
10,000 or more	Between 1 October 2012 and 1 March 2013 <i>(determined by number of workers)</i>
500 to 9,999	Between 1 April 2013 and 1 November 2013 <i>(determined by number of workers)</i>
50 to 499	Between 1 January 2014 and 1 July 2014 <i>(determined by number of workers)</i>
Fewer than 50	Between 1 March 2014 and 1 February 2016 <i>(determined by last two characters of PAYE reference number)</i>
New companies established on or after 1 April 2012	Between 1 March 2016 and 1 September 2016 <i>(determined by date of establishment)</i>

### How much will employers and jobholders need to contribute?

Employers will be required to pay at least 3% of qualifying earnings for those jobholders who don't choose to opt out. They can choose to pay more but the total contributions from employers and jobholders must be at least 8% of qualifying earnings.

	Employer contribution	Jobholder contribution	Total
Staging date to 30 September 2016	1%	1%	2%
1 October 2016 to 30 September 2017	2%	3%	5%
1 October 2017 onwards	3%	5%	8%

\*Including tax relief

Phasing in of contributions won't start until the employer responsibilities have been fully 'staged' in. However, employers may choose to phase in their contributions quicker or pay higher contributions.

### How will employers be informed about their new responsibilities?

The Pensions Regulator will be responsible for making sure employers are aware of their duties, their staging date and how to comply.

### What happens if I don't take any action?

The Pensions Regulator will make sure that all employers take pensions reform seriously. There will be penalties if you don't have the right pension provision in place, and your workers and jobholders will be entitled to whistleblow.

### How do I prove I've made enough provision?

Employers will have to register details of their scheme with the Pensions Regulator. This can be done online and will help the Pensions Regulator identify employers who aren't complying. You'll need to make sure you met the minimum contribution test and, depending on this, you may be able to self-certify.

For more information, please contact  
your financial adviser. Or visit  
[www.pensionsreform.aegon.co.uk/  
employers](http://www.pensionsreform.aegon.co.uk/employers)

This information is based on our current understanding  
of proposed and current legislation as at 1 January 2011.



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