

# Auto-Enrolment Update

The Coalition Government has now concluded its “Making Automatic Enrolment Work” review and has confirmed the introduction of the National Employment Savings Trust (NEST). The NEST scheme will be aimed mainly at smaller employers and lower to moderately paid workers. However, the proposed auto-enrolment rules could impact on all employers and their employees.

This note summarises the proposed new auto-enrolment rules.

## New Rules for Auto-Enrolment

The review has resulted in relatively minor changes to the previous Government’s original proposals.

There is no change to the requirement that workers aged between 22 and State Pension Age will need to be auto-enrolled into a pension scheme. The proposals continue to apply to all employers, regardless of size.

There is no change to the phasing in of the requirement to auto-enrol, starting with the largest employers working down to smaller employers. The Government has previously issued a table which provides details of the phasing in with reference to PAYE scheme size and reference number.

The proposed minimum contribution rates are unchanged and are shown in the table below as a reminder.

	Minimum Employer	Minimum Total
Oct 2012 - Sep 2016	1%	2%
Oct 2016 - Sep 2017	2%	5%
From October 2017	3%	8%

The original intention of auto-enrolment to introduce pension provision for all employees, particularly the lower paid remains the guiding principle. However, the annual income threshold at which auto-enrolment will commence



has been increased from the original figure of £5,035 (in 2006/07 terms) up to £7,475 (in 2011/12 terms), in line with the income tax personal allowance. This is welcome, as the original threshold was deemed too low.

A new twist is that once an employee reaches the new threshold of £7,475, the minimum required contributions are to be based on income above the National Insurance primary threshold (currently £5,715). Workers can opt in to a qualifying workplace pension scheme if they earn between these two thresholds, if they wish.

## New three month waiting period

The original proposals required employers to auto-enrol workers into a pension scheme within the first month of employment. This seemed unnecessarily onerous, particularly for seasonal workers, including many from overseas who would have seen little value in contributing to a UK pension scheme. The Government has now proposed a most welcome easement in that employers will be able to auto-enrol employees at any time during the first three months of employment.

## Existing defined contribution schemes

Auto-enrolment requires employers to pay at least minimum contributions to a qualifying workplace pension scheme. This can either be the employer's scheme or NEST. The Government's review has proposed that it will now be easier for an employer's scheme to qualify if it only bases contributions on basic pay and not to total earnings within a relevant band.

However, the new rules are perhaps not as simple as employers would like. The new requirements are outlined in the table below.

Minimum Contributions Required by a "Qualifying Workplace Pension Scheme"		
Definition of pensionable pay	Minimum employer contribution	Minimum total contribution
Basic pay	4%	9%
If basic pay is at least 85% of total pay	3%	8%
Total pay	3%	7%

**NB:** The existing exemption for defined benefit schemes remains, with contracted-out schemes being automatically exempt and contracted-in schemes exempt if the accrual rate is at least 1/120th of qualifying earnings.

There will still be a requirement for employers to register their qualifying workplace pension scheme with the Pensions Regulator.

## For more information

For more information we recommend visiting either the Government's Pensions Advisory Service website or the Barnett Waddingham website at the following addresses:

[www.pensionsadvisoryservice.org.uk/employer-guidance/auto-enrolment/advice-for-employees](http://www.pensionsadvisoryservice.org.uk/employer-guidance/auto-enrolment/advice-for-employees)

[www.barnett-waddingham.co.uk/employee-benefits/auto-enrolment-and-personal-account-schemes](http://www.barnett-waddingham.co.uk/employee-benefits/auto-enrolment-and-personal-account-schemes)

Alternatively, please contact your regular Barnett Waddingham contact.

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Chalfont Court  
Hill Avenue  
Amersham  
HP6 5BB  
Tel: 01494 788100  
Fax: 01494 788800

Rigby Hall  
Rigby Lane  
Bromsgrove  
B60 2EW  
Tel: 01527 559111  
Fax: 01527 559222

St James's House  
St James's Square  
Cheltenham  
GL50 3PR  
Tel: 01242 538500  
Fax: 01242 538501

163 West George Street  
Glasgow  
G2 2JJ  
Tel: 0141 243 4400  
Fax: 0141 243 4432

West Riding House  
67 Albion Street  
Leeds  
LS1 5AA  
Tel: 0113 394 3700  
Fax: 0113 394 3760

Port of Liverpool Building  
Pier Head  
Liverpool  
L3 1BW  
Tel: 0151 235 6600  
Fax: 0151 235 6640

Cheapside House  
138 Cheapside  
London  
EC2V 6BW  
Tel: 020 7776 2200  
Fax: 020 7776 3800

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