Automatic enrolment into a workplace pension

Key facts

automatic enrolment

DWP Department for Work and Pensions

Contents

Introduction

Starting from October 2012, millions of workers will be automatically enrolled into a workplace pension. Larger employers will go first, with small and medium sized employers following over several years.

A workplace pension is a way of saving for retirement arranged through an individual's employer. It is sometimes called a 'company pension', an 'occupational pension' or a 'works pension'.

Workers will put money in, as will employers, and the government will also contribute in the form of tax relief.

This is the first time that employers have been required by law to contribute to their workers' pensions.

Who will be enrolled into a workplace pension?

Employers will automatically enrol workers into a workplace pension who:

- are not already in a qualifying pension scheme
- are aged 22 or over
- are under State Pension age
- earn more than £8,105 a year (this figure may change), and
- work or usually work in the UK.

Automatic enrolment into a workplace pension makes it easier and is a hassle free way for workers to save for their retirement whilst they earn.

Workers can find more information on workplace pensions on the Directgov website.

www.direct.gov.uk/workplacepension

Benefits of a workplace pension

The contributions from employers and the government (as tax relief) mean workplace pensions can build up more quickly than if individuals were saving for retirement on their own.

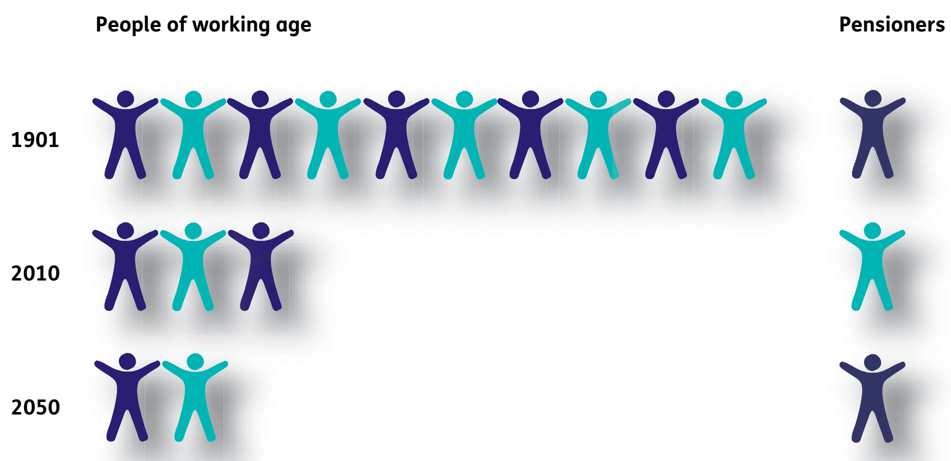
Workers can opt out of a workplace pension at any time, but if they do, they will lose out on the employer contribution and tax relief from the government.

Why is this happening?

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.

In 1901 there were 10 people working for every pensioner in the UK. In 2010 there were 3 people working for every pensioner. By 2050 it is expected that this will change to just 2 workers.

Number of working age people for every pensioner



Our society is getting older. In 1901 there were 10 people working in the UK for every pensioner. By 2050, it is expected that this will change to just 2 workers.

The Pensions Act 2008 laid the foundations for a fundamental reform of workplace pensions requiring every employer to automatically enrol their workers into a qualifying pension scheme, if they are not already in one, and contribute to that pension.

Automatic enrolment into a workplace pension will help to address some of the issues that prevent people from saving into a pension such as:

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

A new pension scheme, NEST, has been established and is available to any employer who chooses to use it. This will enable all employers to provide a pension scheme for their workers.

When do employers have to start enrolling their workers?

It depends on the size of the employer. Very large employers (with over 50,000 workers) are first, starting in 2012. Smaller employers will follow later, over several years. The Pensions Regulator will notify employers of their exact date.

More information on when employers will be automatically enrolling workers can be found on the Pensions Regulator website

www.thepensionsregulator.gov.uk

The Department for Work and Pensions is developing a toolkit for employers which will include templates for letters to workers and frequently asked questions. This toolkit is in addition to the information provided by the Pensions Regulator.

Postponement

Once the Pensions Regulator has notified employers of their date to enrol eligible workers into a workplace pension, employers can choose to postpone for up to three months from that date. If they choose to postpone, employers must inform those workers in writing. Those workers have the right to opt in to a workplace pension during the 'postponement', begin saving and get the employer contribution and tax relief from the government. Following on from the original enrolment date, employers can also use the 'postponement' for any new workers.

How much will pension saving cost employers and workers?

The amount of money employers and workers have to contribute to a workplace pension is usually calculated as a percentage of the worker's earnings.

The government has set minimum levels that have to be contributed in total. To start with the total contribution level (including tax relief) will be two per cent, with a minimum of one per cent coming from the employer.

Over time the total minimum contribution level will increase to be at least eight per cent, with a minimum of three per cent coming from the employer.

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

Individuals can also contribute more than the minimum if they want to.

The earnings criteria states that any worker earning over £8,105 a year (this figure may change) will be automatically enrolled into a workplace pension by their employer. The minimum percentage contribution will be made on anything the worker earns over £5,564 up to a maximum limit of £42,475 (both these figures may change).

For defined benefit and hybrid pension schemes, alternative arrangements apply – see the section on Different types of workplace pension schemes.

Opting out of a workplace pension

If a worker opts out within one month from the day they officially become a member of the scheme, any payments made by them to their pension will be refunded. If they choose to opt out after this period, the payments already made may not be refunded and will remain in their pension scheme until they retire.

Deciding to re-join a workplace pension

If a worker opts out or stops saving into their employer's pension scheme but later decides they want to join again, they can do so. The employer has to accept them back in, once in every twelve month period. If the worker still meets certain requirements then their employer will contribute too. If the worker stops paying a second time and then requests to join again within twelve months, the employer does not have to accept them the second time. But they can do so if they want.

Being automatically enrolled back into a workplace pension

If a worker opts out or stops paying into the workplace pension their employer has a duty to automatically enrol them back into their pension scheme at regular intervals, usually every three years. This is to give those workers who have left the workplace pension the opportunity to reconsider their finances and pension saving options. They can choose to stay in this time or opt out again.

What if employers have workers with more than one employer?

The same rules apply whether workers have one or multiple employers. Each employer will need to apply the eligibility criteria to every worker. If they meet these, workers will be automatically enrolled into a workplace pension. Workers have the option to opt out of one or all of the workplace pension schemes they are enrolled into.

New businesses

New businesses starting after April 2012 will be given time to establish themselves before they have to enrol their workers into a workplace pension. This means they will begin enrolling their workers after existing businesses have started automatic enrolment.

Different types of workplace pension schemes

There are two main types of pension scheme that employers may enrol a worker into - defined contribution and defined benefit schemes.

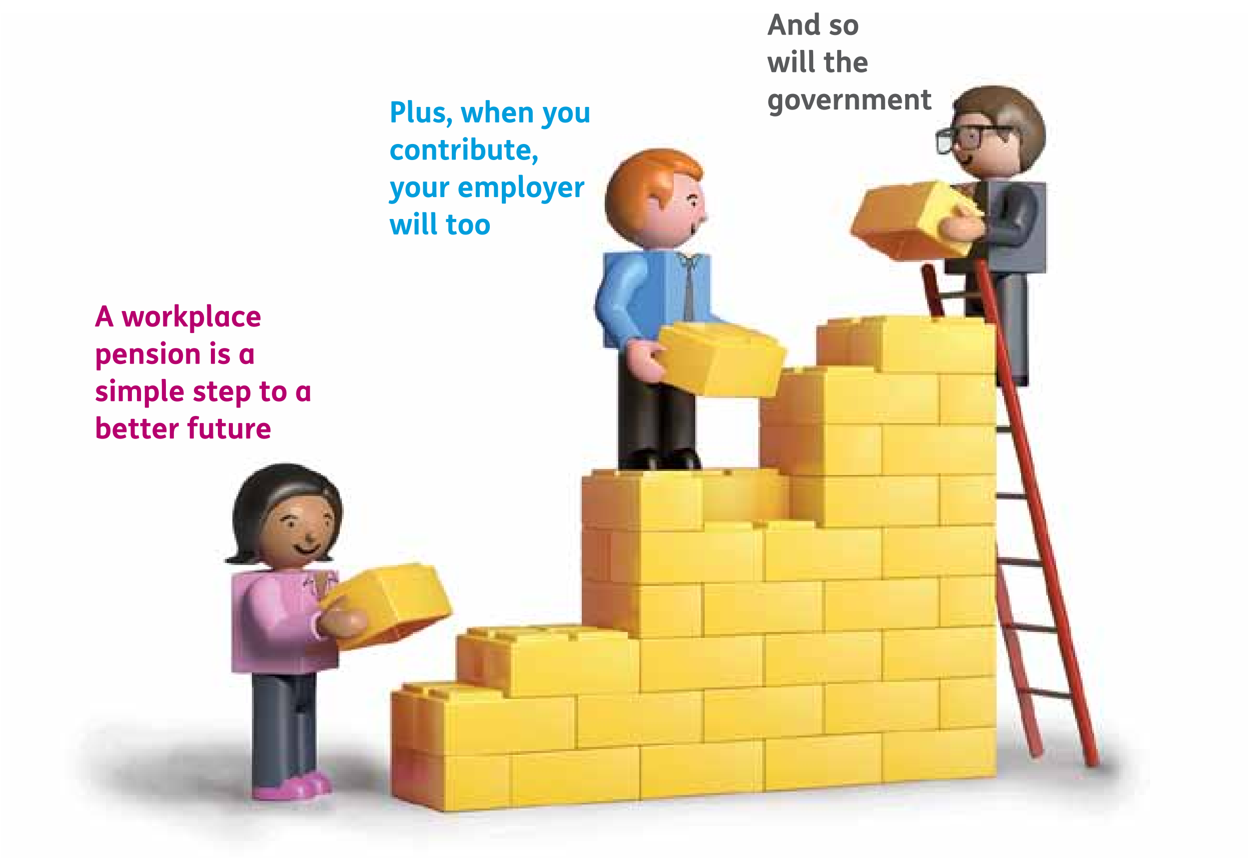
- Defined contribution schemes. The worker's pension pot is put into various types of investment. The amount they get at retirement is based on how much is paid in and how well the investments have performed. Normally, when they retire, the worker takes some of their pension pot as a tax-free cash lump sum. They use the rest to buy themselves an income, on which they might pay tax. These are also known as 'money purchase' schemes.
- Defined benefit schemes . The amount at retirement is based on various factors. These could include how long they have been a member of the pension scheme and their earnings. Examples include 'final salary' or 'career average' earnings related pension schemes. Normally when they retire the worker takes some of their pension as a tax-free cash lump sum. The rest they get as a regular income, on which they might pay tax.

Hybrid occupational pension schemes have elements of both types of schemes.

The government has set a minimum amount of money that has to be put into a workplace pension by employers. This starts low and will increase in time. This low start is not possible for defined benefit and hybrid schemes. Instead, employers providing these types of scheme will be able to delay their date for enrolling some of their workers until after all other businesses have enrolled their workers.

If employers offer defined benefit or hybrid pension schemes and choose to delay their enrolment date, workers will have the opportunity to opt in to the workplace pension during the period of delay if they wish to.

It's possible for workers to get an indication of how much they will get from their workplace pension by getting a 'pension estimate'. They can get this from whoever runs their pension scheme.



Useful contacts

The Pensions Regulator is responsible for ensuring employers comply with the new law to automatically enrol all eligible workers into a workplace pension. The Pensions Regulator has employer staging information and has produced detailed guidance for employers. For more information visit the Pensions Regulator website

www.thepensionsregulator.gov.uk

NEST Corporation is a pension provider available to all employers who want to use it. NEST has been designed to complement existing provision. For more information visit the NEST website

www.nestpensions.org.uk

Individuals and workers can find out more about how automatic enrolment into a workplace pension might affect them by visiting the Directgov website

www.direct.gov.uk/workplacepension

Employers can find practical guidance to help them inform their workers about automatic enrolment on the Business Link website

www.businesslink.gov.uk/workplacepension

Department for Work and Pensions is responsible for the policy, legislation and communications to individuals relating to the changes in law. If you want more detail on the policy and background behind the changes you will find more information on the DWP website

www.dwp.gov.uk/workplacepension

The Pension Advisory Service is an independent, non-profit making organisation which provides free advice about pensions. For more information visit the Pensions Advisory Service website

www.pensionsadvisoryservice.org.uk

The Money Advice Service is an independent organisation which provides free and unbiased money advice, including how to manage debt. For more information visit the Money Advice Service website

www.moneyadviceservice.org.uk

The Pension Tracing Service can help individuals keep track of their workplace pensions. Lots of people move jobs several times in their working lives, so it's important to keep track of their pensions. The Pension Tracing Service could help provide them with contact details for that pension. For more information visit

www.direct.gov.uk/pensiontracing

Examples of who will and won't be enrolled into a workplace pension starting from October 2012 (fictional studies)

Fiona will be automatically enrolled into a workplace pension by her employer
Fiona is aged 27 and earns £37,000 a year working for a recruitment consultancy company. She is not already a member of her employer's workplace pension. As Fiona earns more than £8,105 a year and is over 22, this means her employer has to automatically enrol her into the pension and pay into it. She will also get a contribution from the government in the form of tax relief.

Leon will not be automatically enrolled into a workplace pension by his employer

Leon is aged 20, earns £17,000 a year working for a building contractor and is not already a member of his employer's workplace pension. As Leon is under 22, his employer does not have to automatically enrol him into the workplace pension. However, Leon can ask to join the pension. If he does, his employer has to enrol him and pay into it. He would also get a contribution from the government in the form of tax relief.

Peter will not be automatically enrolled into a workplace pension by his employer

Peter is aged 42 and earns £4,500 a year working as a cleaner for a small charity. He is not a member of the charity's pension. Because Peter earns less than £8,105 a year, his employer does not have to automatically enrol him. However, Peter can ask his employer to put him into a pension, and his employer has to do it. As Peter earns less than £5,564 a year, his employer does not have to pay into it, but can choose to do so. He might also get a contribution from the government in the form of tax relief – he would need to check with whoever runs his pension scheme.

Julie is already a member of her employer's workplace pension

Julie is aged 59 and earns £45,000 a year working for a publishing house. Julie is a member of her employer's pension. Her employer pays into it, the government pays into it through tax relief and the pension meets the government's new standards. As she is already in the workplace pension, Julie will not be automatically enrolled.

Lily enrols back in to workplace pension saving
Lily is 26, works full time, earns £28,000 per year and has just moved into a new flat.

Lily meets the eligibility criteria and her employer will automatically enrol her into a qualifying pension scheme. If pension saving is not right financially for Lily at this time she can opt out of workplace pension saving. She will receive a refund on any contributions she has made if she opts out in the first month of being automatically enrolled by her employer.

If she does opt out Lily's employer has to automatically enrol her again (if she still meets the eligibility criteria) approximately every three years from the original enrolment date. This gives Lily the opportunity to re-assess her finances and pension saving opportunities once her financial obligations have become more settled. She can choose to stay in the workplace pension or opt out again.

This booklet and further material on workplace pensions can be found on the DWP website:

www.dwp.gov.uk/workplacepension

This document is only a guide and does not cover every circumstance. The information contained in the document is correct as of February 2012. Some of the information may become inaccurate over time, for example because of changes to the law.

DWP Department for Work and Pensions

Published by the
Department for Work and Pensions
February 2012

www.dwp.gov.uk

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(Revised edition)

ISBN 978-1-84947-942-4