Step by step guide to auto enrolment
The legislation surrounding auto enrolment can be quite tricky. When faced with an overwhelming set of tasks, rules, regulations and jargon it is difficult to fully understand what is expected of employers and how employees may be affected. That’s why we have broken the process down into eight manageable steps:

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Questions to consider when first engaging with auto enrolment...

On what basis should an employer select a scheme?

- How should they choose between pension providers?
- What pension contribution structures will be best for employees and employers?

Which structure and what contribution rates are best for an employer and their employees?

Should postponement be used?

How much will this impact on back office functions, in particular payroll? Who should provide which services? Payroll? Pension provider? Self provision?

- Who should provide assessment?
- Who should provide communications?
- Who should keep records and what records need to be kept?

Step 1.
Duties start dates and planning

At a glance

New employers need to be ready to implement automatic enrolment as soon as they employ their first employee. Employers should prepare for automatic enrolment alongside their other responsibilities.
How does an employer select a scheme?

It may be entirely possible for employers to make the selection of their pension provider themselves. However, they could consider using the services of a financial adviser as the decision is not always straightforward and the ‘obvious’ choice may not always be the best one. Some questions to consider when selecting a scheme:

- Is communication issued on the employer’s behalf? Are they simple and easy to understand?
- Do they have simple requirements and on-boarding process?
- Are investment decisions made by experts on the member’s behalf?
- Are the costs and charges for members competitive and easy to understand?

At a glance

- Many auto enrolment schemes have significantly varying offerings
- Charging structures should be fully transparent
How can an employer really understand how much a provider will charge for auto enrolment and how much of a burden this will be for their business and their employees?

Many providers have fees which are difficult for employers to understand. There are some key areas that we would recommend employers examine:

What are the costs of complying with the auto enrolment legislation and who will bear the following costs?

• Communications
• Managing the opt in and opt out process
• Calculating contributions
• Maintaining compliant records

Will these costs be shouldered by the employer, employees, payroll software providers, payroll outsourcing companies or pension providers?

How much will it cost to produce information for the pension provider in the required format?

Is it worth consulting the payroll software provider as charges may vary depending on provider?

What charging structure does the pension provider apply to employees? (This will normally take the form of an annual management charge and/or a direct administration fee.)

Is the scheme auto enrolment compliant?

It may be difficult for an employer to check this themselves unless they have a level of pensions knowledge. However, features an employer can look into to see if the scheme is compliant include:

• Does the provider confirm what auto enrolment compliant schemes they offer?
• Does the provider have information about all of the things it does to ensure compliance?
• Does the provider give you enough information for reporting and record keeping requirements?
• Does the provider state their governance structure?
• Does the provider offer transparent charging structures?
• Does the provider facilitate minimum contribution levels?
How should an employer decide what contributions to invest in a scheme?

Ultimately the decision should be made as part of a broader HR and budgetary policy, however there are some considerations that an employer may want to take into account:

• What do they have to do to be compliant with the legislation?
• What message is their pension choice giving to their staff?
• How does this fit with the broader HR strategy regarding retention and attraction?
• What can an employer afford to contribute?
• What can their pension provider support?

With regards to your pension provider, some have created standardised models to aid employers to choose a model which suits them and keep costs down.
What are the minimum contributions an employer can make?
The minimum contributions an employer can make is 3% of each jobholder’s band or qualifying earnings. Over time this may increase.

Can an employer pay higher contributions?
Yes, as long as they meet the minimum criteria then they can choose their contribution structure.

Are there any advantages to paying higher contributions?
Pension contributions are tax deductible, making them an efficient way of saving for members while also providing employers with tax breaks.

If an employer were to pay higher contributions than the minimum they could potentially lower turnover of staff and attract higher quality candidates – both great ways of minimising recruitment costs and future proofing a business. Some pension providers have taken this into account and have developed standard models designed to allow flexibility for more generous employers.

Can an employer pay different contribution levels to different groups of staff?
Yes. For example, an employer may wish to have the following structures:

<table>
<thead>
<tr>
<th>Administration staff</th>
<th>Management staff</th>
<th>Directors</th>
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<tbody>
<tr>
<td>5% Member</td>
<td>6% Member</td>
<td>15% Employer</td>
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<td>3% Employer</td>
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<td></td>
<td>0% Member</td>
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An employer must be sure to meet the minimum requirements for all groups.
What default retirement age should be selected?

It is no longer legal to force employees to retire on age grounds and therefore employees will be able to work beyond their state pension age. However, members of the scheme would currently be able to retire at any time after age 55 and could take their benefits at 75 or beyond (although certain constraints may apply). Make sure there is sufficient flexibility within a scheme for members, regardless of their decision.

Is it possible to introduce a salary exchange scheme to make National Insurance savings as well as tax savings?

Auto enrolment allows for salary exchange and HMRC guidance has been amended to enable flexibility around pension contributions. It is possible to introduce salary exchange at the same time as auto enrolment, but the employer will need to make sure that their communications are effective and within the required timescales, as salary exchange must be agreed by employees prior to them being enrolled in a pension scheme. It is also important to plan ahead as the introduction of salary exchange can be a lengthy process with possible amendments to the payroll.

What definition of salary should be used when calculating contributions?

This is entirely up to the employer, providing they comply with the minimum requirements. The default basis for auto enrolment is qualifying earnings but the employer can also choose different definitions which use either pensionable pay or earnings. The minimum contribution percentage can vary according to which definition is selected.

Qualifying earnings are also referred to as banded earnings, which are between the lower and upper limits as set out by the auto enrolment legislation.

For the 2019/20 tax year this is between £6,136 and £50,000 a year. This would normally, but not exclusively, include wages, commission, bonuses, overtime, statutory sick pay, statutory maternity pay, ordinary or additional statutory paternity pay and statutory adoption pay.

Basic earnings exclude fluctuating income such as bonuses, commission and over time.

Entitled workers who want to join should check with their employer about the basis of pensionable earnings as if the scheme operates on a qualifying earnings basis, no contribution would be paid into your pension.

For pension contributions calculated on basic earnings, the whole of the employee’s earnings are taken into account. So, using auto enrolment for a worker earning £20,000 before overtime or bonuses, the amount we would calculate their pension contributions on would be the full £20,000.

Please note: you can choose to calculate contributions in a way that meets the requirements of three ‘sets’ described in the legislation. See The Pensions Regulator’s guidance on certification of basic pay here.
What are matching contributions?

Matching contributions are a way of incentivising employees to save for their retirement. In essence, the more they commit to save, the more an employer will offer to contribute to their fund. An employer may wish to offer the minimum contribution criteria for all employees but then incentivise them to save more by offering to pay in more, e.g. 6% if an employee pays in 6%. An employer can take this further and offer to double their contributions: 10% if the employee contributes 6% etc.

An employer has a bonus scheme where many employees will receive a one off payment. Can this be paid into the pension arrangement?

Yes, alongside regular contributions, members can make one off contributions (subject to certain limitations*) to take account of one off payments such as annual bonuses. This is a particularly tax efficient way of members receiving all, or part, of their bonus as it attracts tax relief at the member’s highest rate.

It is easier to make the deduction in the same pay period that they receive the bonus as this means that the tax relief is taken into account at the time the bonus is paid and the full benefit of the contribution is made to the member’s fund. However, not all definitions of pay include bonuses and it may be worth checking your pension provider’s standard models.

*Annual allowance is usually £40,000 for tax year 2019/20. However people with an income (including employer pension contributions) over £150,000 will have a lower annual allowance limit. Find out more here.
Why is payroll integration so important?

As soon as a worker is assessed as an eligible jobholder, the employer will need to enrol them and deduct contributions from pay. As payroll timescales are often short, it is imperative that the data from the employer’s payroll system is sent to the provider in a standardised way to avoid delays.

The employer’s data will usually come from their payroll system and will need to be imported for each pay period. The data should be in the required format so that communications can be issued within the set timescales and managing opt ins and opt outs can be processed and records kept. If there are errors or missing information, this may create significant problems for the employer; however, most pension providers will have guides and support tools to help.
Who is best placed to carry out the assessment?

It is recommended that assessment is carried out within payroll; this prevents payroll having to wait for information from an external source in order to pay employees and removes a lot of tension from the system. It reduces the risk of the employer not paying its employees on time. NOW: Pensions does not undertake the assessment of employees.

Can the payroll be outsourced to an external provider?

Some pension providers work with outsourced payroll providers or bureaux. An employer should ask their payroll provider which pension providers they currently work with to ensure the smoothest transition.

What should an employer expect if payroll undertakes the assessment?

Once an employer's first payroll has been finalised they will provide the file to us. Subsequently the required communications will be automatically produced offering either postponement information or opt out and joining rights. Before finalising their next payroll the employer will collect an output file from our system which will include notification of employees who have used our opt out and joining services or may have chosen to increase their own contributions. This information is added by the employer to their payroll and the correct refunds or contribution deductions can take place. The employer's payroll is then finalised and the next file showing that information is provided to us. This cycle simply repeats itself for each pay period.

What if an employer has three different payrolls – weekly, fortnightly and monthly. Are all the files to be amalgamated before an employer sends them to NOW: Pensions?

This is an option, however it does increase the risk profile of the process. We would suggest that the best approach is to upload a separate file for each payroll.
Step 5.
Assessing workers

At a glance

- Eligible jobholders must be members of a qualifying scheme or auto enrolled into an auto enrolment scheme.
- Non-eligible jobholders must have the option of opting in to an auto enrolment scheme.
- Entitled workers must be given access to a pension scheme.

Which employees are eligible for auto enrolment?

One of the questions we get asked most often is ‘who should I auto enrol?’ The diagram below shows which employees must be put into a pension scheme.

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1 Employees must be working in the UK.
2 This is the age that a person's State Pension will start to be paid under normal circumstances (currently 66 for both men and women but gradually rising to 67 and 68).
3 Under auto enrolment regulations, employers aren’t required to contribute to entitled workers’ pension schemes. However, NOW: Pensions uses a variety of contribution models, some of which allow employers to make contributions to entitled workers pension schemes.
4 Entitled workers who want to join should check with their employer about the basis of pensionable earnings as if the scheme operates on a qualifying earnings basis, no contribution would be paid into their pension.
Where is the optimum place to assess employees?

In the majority of cases it is best to facilitate the assessment within payroll, as there are a number of significant advantages including:

• The data remains within the payroll system the whole time, minimising risk and removing the need for re-validation of data when it is received back from the pension provider.

• Processing times are kept to a minimum – even if the information is turned around within an hour by another provider this can be significant for weekly payroll runs.

• There is no delay to the payroll process if there is any missing data, as this would be picked up by the normal payroll process.
Step 6. Postponement

At a glance

- Employers can choose to postpone for up to three months.
- Maximum postponement periods are useful when dealing with temporary staff.
- Applying postponement for new joiners can reduce payroll and communication administration.

What is postponement?

Postponement is an additional flexibility for an employer that allows them to choose to postpone auto enrolment for a period of their choice of up to three months.

Postponement can only be used for an employee on certain dates:
- The date an employee employed by them meets the criteria to be an eligible jobholder.
- The first day of employment.

When is postponement usually implemented?

One of the main reasons an employer might decide to postpone is if they have temporary or short term staff who they know will stop working within three months. An employer can also use it to align auto enrolment with other business or payroll processes, for instance deferring all new joiners to the start of the next pay reference period will negate the need for pension contributions to be deducted for part pay periods. Also, an employer may wish to use postponement so assessment is aligned to the end of an employee’s probation period.
What happens if auto enrolment is postponed?
An employer must write to tell their employees if they are applying postponement. They will have six weeks from the date postponement starts to write to the workforce, and will lose the right to use postponement if they do not issue the communications within this six week window. Postponement can last for up to three months and an employer can postpone as many or as few staff as they like. The postponement period doesn't have to be the same length for everyone.

What happens at the end of the postponement period?
On the last day of the postponement period, an employer will need to know whether their employees whose auto enrolment they've postponed are still eligible to be auto enrolled. If they are, the employer must put them into a pension scheme straight away. An employer cannot apply a further period of postponement even if they postponed for less than the three months allowed.

What is the best way to manage employees who are keen to opt in?
If an employer believes they have employees who will be interested in joining the pension and they want to maximise the pension contributions, the sooner the communications are issued, the sooner the right to join a scheme can be exercised. NOW: Pensions offers employees access to an online account where they can quickly and easily request to join the scheme. This information is immediately made available to the employer who can record all requests and arrange to enrol the employees at the earliest opportunity.

Is it possible to have different postponement dates for different employees in the same scheme?
Yes, NOW: Pensions can easily support this however having different postponement choices may add complexity to your payroll.
Step 7.
Communications

At a glance

- E-versions of auto enrolment communications save time and money.
- Communications must be issued within six weeks of staging or a new employee joining.
- Selected payroll and pension providers are able to help with employee communications.

What auto enrolment communications do employers need to send?
Depending on your approach, you will need the following:

- Postponement notices
- Notice offering joining rights
- Enrolment letters

What is the best format for communicating?
Electronic communications delivered via e-mail (or opt in/opt out processes administered online) are preferred in terms of cost, reliability and speed. Written communications are comparatively inefficient and unreliable.
What are the timeframes for issuing communications?
Postponement notices, auto enrolment notices and joining rights and categorisation notifications have to be issued within six weeks of the duties start date or a new employee joining. The sooner that information is provided to employees, the sooner they can opt in or opt out.

Who issues the communications?
It is the employer’s duty to ensure that communications are issued to all workers. It is important that whoever issues the communications ensures that the proper records are kept to ensure compliance.

How much will the communications cost?
The cost of employing a specialist agency to draft compliant communications and to then have these legally checked can be prohibitive, even before postage is taken into account. It is recommended that an employer looks for a pension provider that can offer communication as part of its standard offering.

Can communications be used to encourage employees to opt out?
Nobody can induce, encourage or put pressure on employees to opt out of auto enrolment, or indeed not to opt in. Employers can be fined up to £10,000 a day if they fail to follow their auto enrolment duties to employees and comply with warning notices from The Pensions Regulator.
What if an employer does not hold comprehensive address data; can they place notices on the Notice Board or the company website to inform employees?

No, auto enrolment regulations specify that each employee must receive an individual notification of their categorisation and its implications. Similarly, if postponement notices are used then these must be provided to each individual for whom they are being used. In the event that there is no email address provided for some or all employees, the employer can select to have communications for these employees delivered in PDF format to their company’s managed and maintained email address for printing and delivery to these employees. Notices can be handed to individuals rather than posted, but employers must ensure that each employee receives one and record the date that it was provided.

Does the employer have to issue the communications?

No, employers are allowed to have a third party issue the communications on their behalf, however the employer cannot delegate the accountability if communications are not issued in line with the statutory auto enrolment requirements. NOW: Pensions can issue communications to employees’ email addresses or prepare PDF communications for the employer to distribute.

How does the opt out period work?

Once an employee receives their enrolment notice, they have a month to opt out (as if they had never joined the scheme). In that time, they must provide all of the information required to opt out under the auto enrolment legislation.

What if an employee returned the form on time, but have only partially completed it?

Employees can be given an additional two weeks to return a completed form; if they do not return it within that time they will be deemed to have joined the scheme.

So, employers can just tell their staff that they have six weeks to complete the opt out form?

No, the extension can only be granted in specific circumstances and employees need to have submitted an incomplete form within the timeframes to obtain the extension. It is far easier to give employees a simple method for opting out, such as an online function or automated telephone system.
A company is approaching its annual pay rise period. Does it need to re-assess all of its employees?

Eligible jobholders do not need to be re-assessed as they are already members of the scheme. However, any time an employee receives a pay rise they could change category and have a different range of options open to them. Of course, if an employer assesses all of its employees every pay period, it will automatically pick up people changing to a higher category as they reach age 22 or the minimum earnings criterion (currently £10,000 for the tax year 2019/20).

If a postponement notice has been used does an employer need to provide all of the same information again?

The employer does not have to offer joining rights more than once, however depending on how postponement is used, it is possible that more than one postponement notice may be issued when a new postponement period occurs.
How long does an employer need to keep records?
Auto enrolment records need to be kept for a minimum of six years, although opt out records only need to be kept for a minimum of four years.

Why must an employer keep records?
Record keeping ensures that there is a clear evidence trail to avoid disputes and also to confirm that the correct contributions have been paid.

What sort of records must an employer keep?
Records about jobholders and workers need to kept, e.g. National Insurance number and joining date, as well as scheme records.

Will these records ever be checked?
The Pensions Regulator can check the records at any time. It is likely to take a risk based approach and look at the employers more likely to cause concern, but it can look at any employer's records at any time.
If pensions are administered by a third party – isn’t it their responsibility to keep the records?

No, the ultimate responsibility sits with the employer. The third party administrator can keep the records on their behalf, but the company will need to check that it is doing so.

What will an employer need to report?

They will need to notify The Pensions Regulator of the scheme(s) that it is using to meet auto enrolment duties and confirm that they have complied with those duties.
Further reading?

If you would like to read more on how NOW: Pensions can support you on your route to auto enrolment, please take a look at nowpensions.com where you can download a range of guides and help material.