

Compulsory Workplace Pensions (Automatic Enrolment)

Overview

In October 2012, the requirement on employers to automatically enrol employees into a workplace pension started to be phased in. Whilst the requirement doesn't currently affect all businesses, it will by April 2017. This will represent a significant additional payroll cost for employers and will certainly create additional administrative burdens.

When will it affect my business?

The requirement to automatically enrol employees into a pension scheme and to make pension contributions will affect all employers starting with the largest employers first. Employers with between 50 and 249 staff will be required to introduce schemes on a phased start date between April 2014 and April 2015 and businesses with 49 or fewer staff will have a phased start date between June 2015 and April 2017.

How much will it cost my business?

Whilst large employers will in many cases already have a pension scheme in place into which the required level of contributions are being made, for smaller businesses, the cost implications of the pension changes could be substantial.

Employees must be automatically enrolled in the pension scheme unless they opt out, or fall into a limited number of exceptions (such as those aged under 22). In this regard it is important to note that it will be an offence for an employer to induce its employees to opt out. Minimum employer contributions will start at 1% of earnings in the band £5,564 to £42,475 and will increase to 3% of earnings in that band. The impact will be greatest for employers with employees paid at near the upper limit because the cost as a percentage of salary costs will be greatest (at 2.61%). Employees will also be required to contribute to the scheme with contributions of 1% increasing to 5% of the same band from October 2018.

What will be the impact on my business?

Although it may still seem a long time before the rules apply to smaller businesses, the significant compulsory increase in payroll costs

“Auto-enrolment will affect all employers and will introduce significant additional payroll costs as well as compliance burdens.”

Alan Ross, Tax Director



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is something that businesses should start to plan through their long-term budgets and also when considering the general level of pay reviews in the years leading up to the introduction of the scheme. For small businesses, the burden of these new rules will however extend far beyond the obvious increase in payroll costs. Substantial amounts of time will be required to set up and administer the pension scheme and this burden will be disproportionately large for small businesses. In particular, the management of the opt out/opt in process could become time consuming.

What should I do?

It's important that you understand your position so you can plan for the future with the confidence that you have it covered.

We can take away the headache of:

- finding out when you will need to start
- working out the expected annual costs for your business in each of the four accounting periods from the year contributions start
- understanding what the implications and options might be with introducing it to your employees and the impact it will have on your business.

Next Step

For a fixed fee of £500 (+VAT) our auto-enrolment readiness service will ensure that you can plan for its introduction with confidence.

For help with planning for automatic enrolment, please call us on 01628 770 770.

“Businesses should understand the financial implications for them of Auto-Enrolment and start to plan for those costs.”

Alan Ross, Tax Director

