



23 AUTOMATIC ENROLMENT MYTHS AND TRUTHS

Automatic enrolment is the biggest change to pensions in decades. But, with so many people talking about it, it can be difficult to know what is and isn't true.

In this handy guide, we look at 23 myths surrounding automatic enrolment and set the record straight.

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Background to automatic enrolment

People are living longer, with healthier lifestyles; as a result, the ratio between the workforce and those at pensionable age is decreasing. People are also planning and saving less for their retirement.

The government estimates that around seven million people are not saving enough to give them the retirement income they want or expect.

The current state pension cannot sustain this change, so as a result, workers are being encouraged to save for their retirement through workplace pension schemes.

The Pensions Act 2008 established new duties on employers aimed at tackling these issues and the changes began to be rolled out to businesses in October 2012.



Legal information

This information doesn't constitute financial, investment or professional advice and shouldn't be relied on as such.

Payroll Hub do not make any personal recommendation or give advice to employers and their workers on how to make investment decisions. If you are seeking this kind of advice we would suggest speaking with a qualified financial adviser.



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Myths & Truths

1 Myth

Automatic enrolment means every worker in the UK will be forced to save into a workplace pension, without being given a choice.

Truth

There are certain criteria which workers must meet to be eligible for automatic enrolment.



These criteria are as follows:

- Aged between 22 and the state pension age
- Working in the UK
- Earning above the minimum earning threshold

If a worker meets all three of these criteria, they are classed as an 'eligible jobholder' and will be automatically enrolled into a workplace pension scheme.

Even if a worker is classified as an 'eligible' jobholder' however, this still doesn't mean that they have no choice about contributing to a pension. They still have the option to 'opt out' of their workplace pension scheme. If they do this within the first month of becoming a member of the scheme, they will receive a refund for any contributions made during this time.

Employees still can opt out after the first month but will not receive the refund of their contributions.

2 Myth

Employees who don't fall into the age bracket (between 22 and the state pension age) are not allowed to join a workplace pension scheme.

Truth

Employees who don't fall within the age bracket of 22 and the state pension age but meet the need of the other two criteria (working in the UK and earning above the minimum earnings threshold) would be classified as a 'non-eligible jobholder'.

Employers are not legally required to automatically enrol non-eligible jobholders into a workplace pension scheme. If a non-eligible jobholder requests to be enrolled however, the employer must do so and make contributions to the employees' pension fund.

3 Myth

Employers are required to set up a brand new workplace pension scheme in order to comply with automatic enrolment.

Truth

It is up to employers to choose the most suitable workplace pension scheme for their employees. If the employer already has a workplace pension scheme in place which meets the requirements set out by automatic enrolment, they may continue to use this scheme to comply and will not have to set up a whole new scheme.



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4 Myth

All eligible jobholders must be automatically enrolled into a workplace pension scheme.

Truth

Some workers that are classified a 'eligible jobholders' may already be a member of a workplace pension scheme. If the scheme they are in meets the requirements for automatic enrolment, they do not need to be automatically enrolled into a new scheme.

5 Myth

Employees can permanently opt out of their workplace pension scheme.

Truth

If an employee does not wish to contribute to a workplace pension scheme but is eligible for automatic enrolment, they do have the option to opt out.

This is not a permanent fix however. Legislation states that employees who opt out of their scheme must be reassessed every three years. If after three years they are reassessed and fall under the 'eligible jobholder' category, their employer is legally obligated to automatically enrol them again.

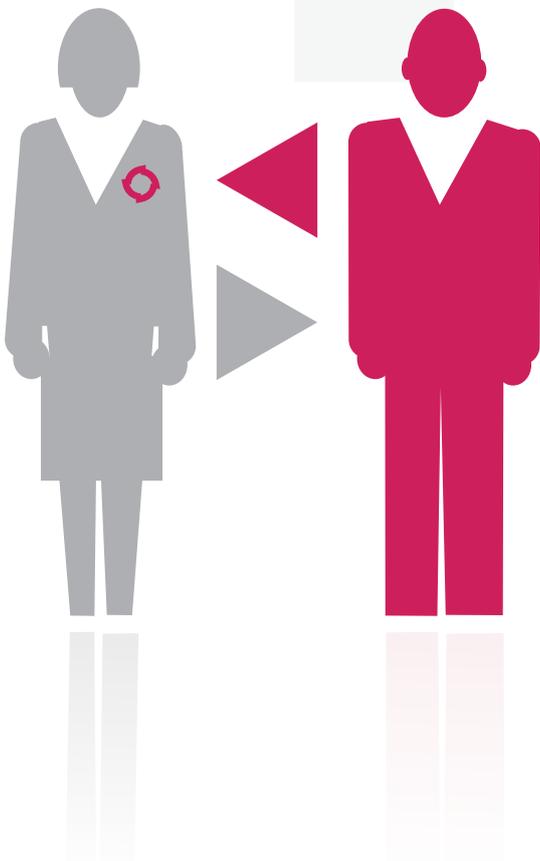
6 Myth

To comply with automatic enrolment, employers are allowed to have only one workplace pension scheme in place.

Truth

It is up to the employers to decide how best to meet their automatic enrolment duties. This could mean continuing to use an existing qualifying scheme, setting up a new one, or a combination of options.

Employers can have multiple workplace pension schemes in place. They must however, have at least one in place which meets their automatic enrolment requirements and is available to all eligible jobholders.





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7 Myth

Only larger employers are legally required to comply with automatic enrolment.

Truth

Starting from October 2012 **ALL** employers with one or more employees are legally required to comply with automatic enrolment.

The point at which businesses need to comply is called 'staging date' and is based off the number employees on the company's largest PAYE scheme, as of 1st April 2012.

Staging for larger employers has already begun and is being rolled out to other businesses across the UK.

8 Myth

Employers can encourage their employees to opt out of their workplace pension scheme to try and save money.

Truth

Employers can face penalties from the Pension Regulator if they are seen to be encouraging employees to opt out of their workplace pension scheme.

According to the legislation, employers **must not**:

- Discriminate in favour of job applicants who state they are willing to opt out
- Encourage workers to opt out
- Treat an employee unfairly because they don't opt out





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9 Myth

Automatic enrolment is not a payroll issue, it will be handled by a different department.

Truth

According to a recent survey, nearly 60% of businesses see payroll as having primary responsibility for handling automatic enrolment.

This is due to the fact that payroll will have direct access to Employees' PAYE information, so will be best suited to provide the relevant information needed to assess employees' eligibility for automatic enrolment.

If responsibility is left with a different department, it will still need to work with payroll in order to access this information.

10 Myth

I don't have to worry about automatic enrolment yet.

Truth

Early feedback tells us that automatic enrolment is incredibly complex and takes time to prepare for.

The Pensions Regulator is urging businesses to start preparing for automatic enrolment **12-18 months** prior to their staging date to ensure that they can get the relevant systems and processes in place.

11 Myth

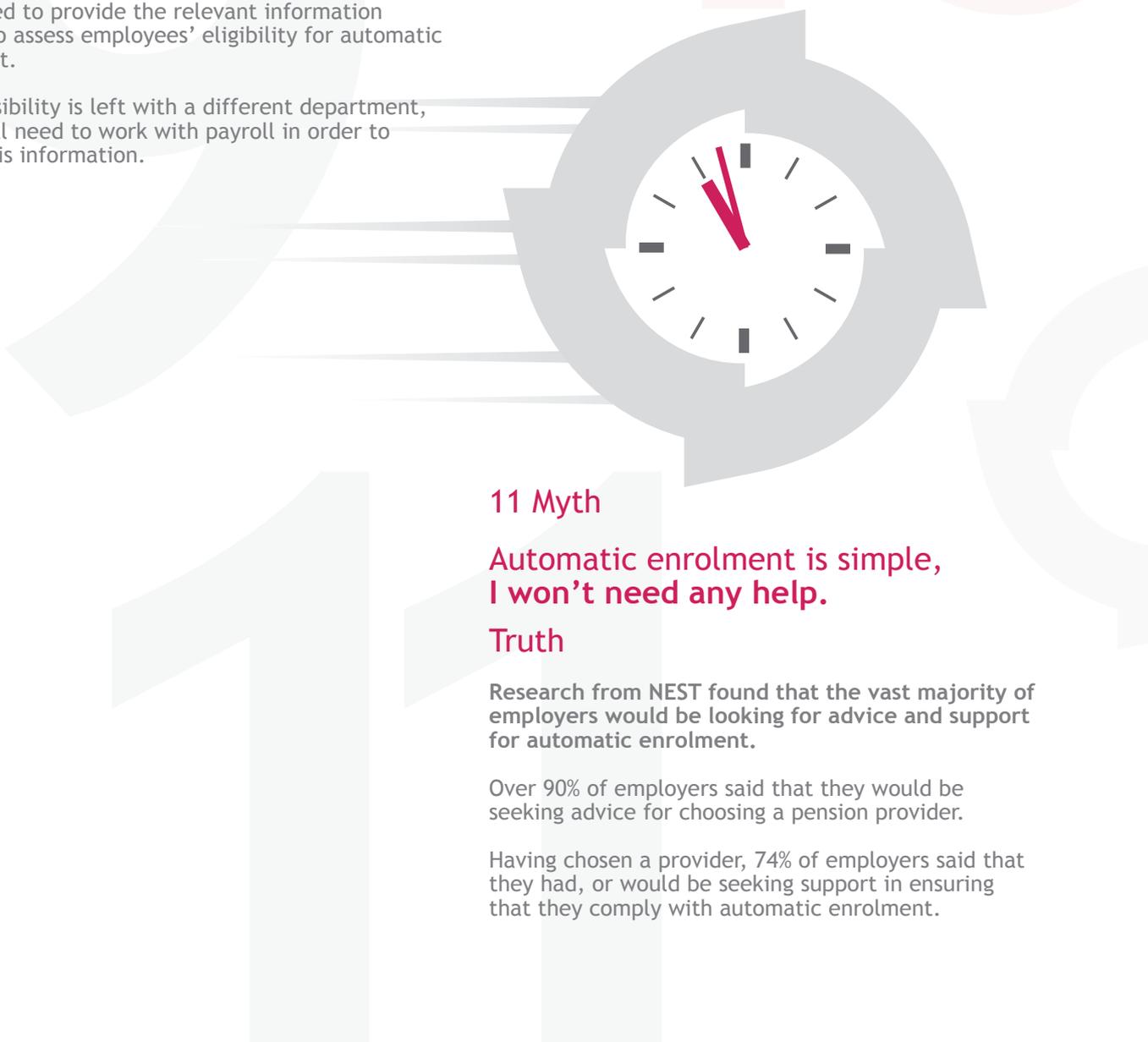
Automatic enrolment is simple, I won't need any help.

Truth

Research from NEST found that the vast majority of employers would be looking for advice and support for automatic enrolment.

Over 90% of employers said that they would be seeking advice for choosing a pension provider.

Having chosen a provider, 74% of employers said that they had, or would be seeking support in ensuring that they comply with automatic enrolment.





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12 MYTH

Automatic enrolment doesn't apply to me. I won't be affected by it.

TRUTH

If you are an employer with staff working for you in the UK then you will be affected by automatic enrolment. It doesn't matter what the size of your business is, whether you make a profit, or the sector you are in. You must comply with automatic enrolment legislations.

A company may even have non-employees who will be considered workers for the purposes of automatic enrolment.

You will need to assess your employees, enrol onto a pension scheme when relevant and complete a declaration to show The Pension Regulator that you have done this.

The key automatic enrolment tasks remain the same whether you have 1 employee or 10,000 employees.

13 MYTH

Any pension scheme can be used for automatic enrolment. If I have a pension scheme in place this will be suitable.

TRUTH

Not necessarily. Pension schemes can be used for automatic enrolment only if they meet certain criteria which have been set out by The Pension Regulator. The scheme must reach certain quality standards so that employees get the most from their contributions.



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14 MYTH

The only important deadline that I need to remember is my staging date.

TRUTH

While your staging date is a very important deadline, you will also need to complete an automatic enrolment declaration of compliance. This gives The Pension Regulator the detailed information about how you are complying with automatic enrolment legislation. Each company will have a deadline when this information needs to be submitted to The Pensions Regulator and this will typically be 5 months from your staging date.

It is recommended that you start to complete your declaration as soon as possible, to ensure that you meet your deadline. You could face fines not submitting your declaration on time.

15 MYTH

It's OK if I miss my staging date and declaration of compliance deadline. The Pension Regulator will not do anything about this.

TRUTH

Your business is at risk of fines for not complying with automatic enrolment legislation so meeting your staging date is crucial. Not only will you need to back-date the pension contributions for your employees but you could get charged a fixed fine initially, leading to a per day fine if your company still doesn't comply with legislation.

Table of Fines

Number of Employees	Daily Fine
500+	£10,000
250-499	£5,000
50-249	£2,500
5-49	£500
1-4	£50

14

15



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16 MYTH

Employers can work out their own staging date.

TRUTH

Staging dates are based on the PAYE reference and number in the company on 1 April 2012. Employers are unlikely to know this and should always use the TPR staging date tool to check.

17 MYTH

Once I have staged for automatic enrolment there is nothing more I need to do.

TRUTH

There will be ongoing requirements you will need to manage every pay period to ensure that you maintain your automatic enrolment compliance. Employee assessment will need to be done each pay period to ensure that you automatically enrol all your eligible jobholders and communications will have to be sent as required.

It has been estimated that managing the ongoing requirements of automatic enrolment can take up to 3.5 days per month.*

EXAMPLE

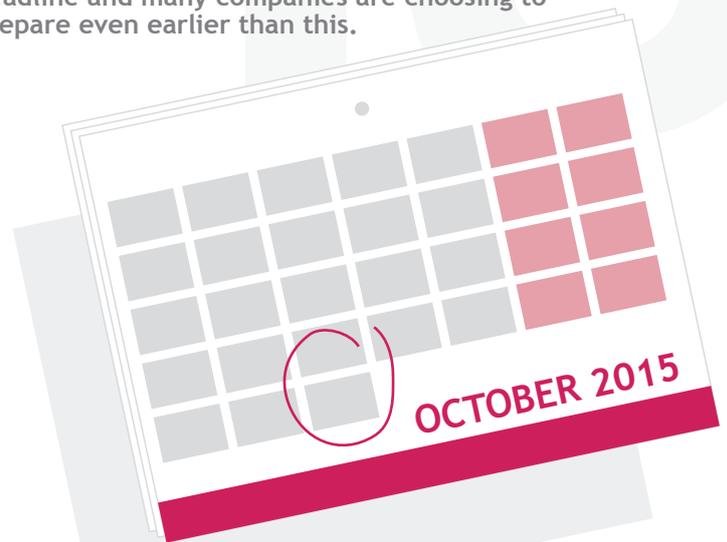
One of your employees earns £14,000 a year and during the last pay period they have turned 22. They will now be an eligible worker and should be automatically enrolled onto a pension scheme and sent the relevant communications.

18 MYTH

I am a small business so I don't need to worry about automatic enrolment.

TRUTH

Industry experts recommend preparing at least 12 months prior to your staging date to ensure that you have everything in place to meet your deadline and many companies are choosing to prepare even earlier than this.



The number of companies reaching their staging date will grow rapidly over the next few years and there are fears that there will be a capacity crunch where demand starts to outstrip supply for both IFAs and Pension Schemes. Businesses that don't prepare early could face limited choice and higher costs.

Any business that employs 1 or more staff will have to comply with auto enrolment.

*According to CE BRA survey - September 2013



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19 MYTH

I don't need to handle automatic enrolment within my payroll software.

TRUTH

Assessing an employee to check if they need to be automatically enrolled is based on pay information, which is handled by your payroll software. Assessing employees, then enrolling them on a pension scheme and sending the relevant communications can be a simple process if you have the right payroll systems in place.

Some companies believe they will be able to handle the assessment and communication process manually but as this needs to be done every pay period it can make things extremely complex. How can you ensure that the right people are sent the right communications and the correct automatic enrolment deductions are made each and every time?

The following diagram shows the simple 3 step process of using a payroll solution such as the Payroll Hub for managing automatic enrolment. Trying to handle things manually or with other software can lead to 10 separate steps:

20 MYTH

All payroll systems will be automatically updated to handle automatic enrolment.

TRUTH

Not all payroll software will be able to handle the complexities of automatic enrolment and many will require you to do manual calculations.

If your payroll provider does have an automatic enrolment solution you will need to ensure that you have the correct modules in place and that you have configured it correctly. You will also need to ensure that the correct reports are run and saved. This will be a manual process and prone to errors.

If you currently use an accountant or payroll bureau to process your payroll then it is important to check whether they are able to handle automatic enrolment for you and if there will be any additional costs for this service.

It is also worth asking whether they can guarantee that data will be processed accurately. Most accountants and payroll bureaux are prone to human error. Payroll Hub's unique systems will guarantee to eliminate key and processing errors.

Automatic Enrolment Process Workflows: Complex v Simple

Complex

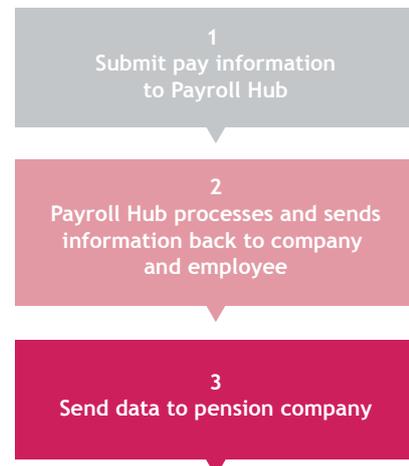
Manual/IFA/Pension/HR Middleware Workflow



IMPOSSIBLE for weekly payrolls and very complex for monthly payrolls.

Simple

Using Payroll Hub





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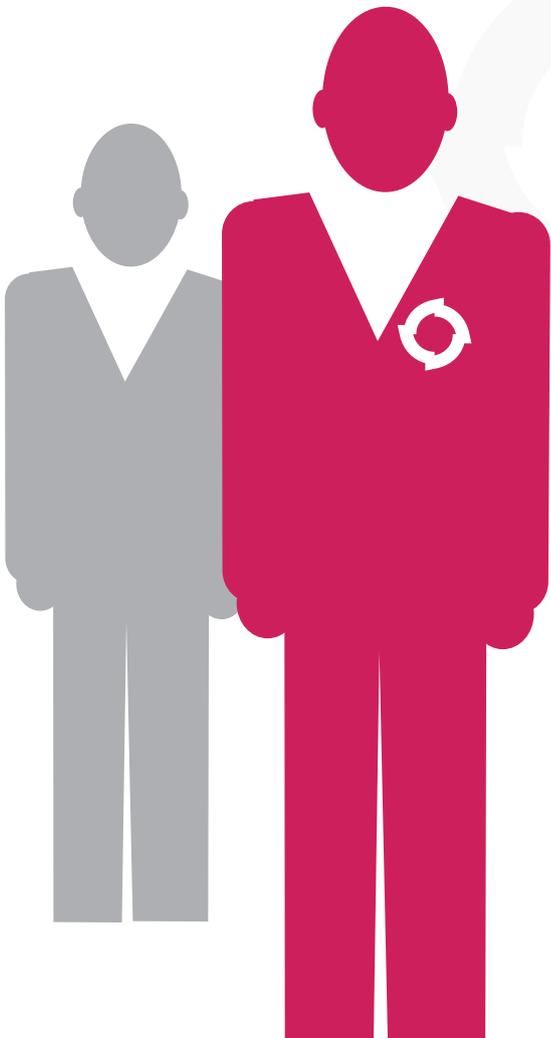
21 MYTH

Automatic enrolment is simple, I won't need any help with this.

TRUTH

Research has found that preparing for automatic enrolment can take up to 103 man days, with tasks including putting your plan together, making sure adequate business processes are in place and constructing the designated communications. Having a suitable system in place can help to reduce this burden.

Automatic enrolment legislation is also complex and it is vital that you take time to attend suitable training so that you understand the implications for your business.



22 MYTH

Employers can encourage their employees to opt out of their workplace pension scheme to try and save money.

TRUTH

Employers can face penalties from The Pensions Regulator if they are seen to be encouraging employees to opt out of their workplace pension scheme.

According to the legislation, employers must not:

- **Discriminate in favour of job applicants who state they are willing to opt out**
- **Encourage workers to opt out**
- **Treat an employee unfairly because they don't opt out**

23 MYTH

Postponement delays my staging date and there is no need to do anything until then.

TRUTH

Postponing does not change your staging date and you will still have duties that apply. For example, employees could still choose to opt-in to your pension scheme in this period and your declaration of compliance deadline will remain unchanged.