

Employers' guide to automatic enrolment

How NEST can help you
meet your duties



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Foreword

Workplace pensions are changing. Introduced in October 2012, new duties will impact most employers in the UK over the next few years.

So, how and when is your organisation planning to respond?

If your organisation is among the largest employers, I'm sure you're already planning your pensions provision. You'll know 2012 isn't just about choosing a compliant arrangement, it's about the mechanics of implementing the changes. This includes organising your data and systems, and telling your workers about what's happening.

Medium-sized employers will be affected later than the largest and smaller employers will be the last to be affected.

Whatever their size, the vast majority of employers will face similar decisions and activities, although on differing scales. This guide is designed to give employers quick and easy-to-understand information on preparing for their new duties.

This guide will tell you where you can find more useful or detailed information to help you prepare. We also include some background on where NEST (National Employment Savings Trust) fits in and the different ways employers can use the scheme.

Finally, we've provided a glossary of terms to help explain some of the pensions language you'll come across as you think about how your organisation will comply with the new duties.

We hope this guide provides a good starting point for employers.

Any employer can use NEST to meet their new duties. Details on how to get in touch with us are at the back of this guide. We've plenty more useful guides to help employers, just visit www.nestpensions.org.uk to view or download.



Tim Jones
NEST Corporation CEO

Introduction to workplace pension changes

What will employers have to do?

- ▶ The Pensions Act 2008 established new duties for UK employers that were introduced in October 2012.
- ▶ Most employers will have to automatically enrol some or all of their workers into a qualifying scheme that meets certain minimum standards and pay contributions on their behalf. Some workers will also have the right to ask their employer to enrol them. NEST is a qualifying scheme that any employer can use to meet their new duties.
- ▶ The new duties affect the largest employers first from October 2012, followed by medium-sized employers and lastly small and micro employers. The size of an employer's largest PAYE scheme will determine at what point the new duties affect their organisation.

How much should be paid in?

If you use a defined contribution pension scheme as your qualifying scheme, the minimum contributions you pay are based on a band of worker's earnings known as qualifying earnings. Qualifying earnings are those between £5,564 and £42,475. These figures apply to the 2012/13 tax year, and will be reviewed every year by the government.

There are different rules relating to defined benefit pension schemes. Employers can contact the Department for Work and Pensions (DWP) or The Pensions Regulator (TPR) for details on this.

Initially a minimum of 2 per cent of qualifying earnings must be contributed, of which a minimum of 1 per cent must come from the employer. That rises over time to 8 per cent in 2018, of which the employer must contribute a minimum of 3 per cent.

Employers can contribute more than the statutory minimums. The minimum contribution levels are intended to set a foundation for building the savings habit.

Qualifying schemes, such as NEST, will accept more than the minimum contributions into members' retirement pots.

Where does NEST fit in?

NEST is a new low-cost and easy-to-use pension scheme that's available for any employer to meet their new duties.

Employers can use NEST on its own or alongside an existing scheme they have in place. They can use it to make the minimum contributions necessary to meet their new duties, or to contribute more than the minimum, if they want, subject to an annual contribution limit of £4,400. These figures apply to the 2012/13 tax year, and will be reviewed every year by the government. Employers can make contributions in a number of ways and on different methods of calculation to suit their needs.

Also, our members have one NEST retirement pot for life – they keep it with them during their working life and can keep contributing into it whether they change jobs, stop working for a period or become self-employed. For employers who use NEST, that means no ongoing administration for them if someone who has a NEST retirement pot leaves their employment.

The difference with NEST compared to other qualifying schemes is that we have a public service obligation to accept all employers that want to use us to meet their new duties.

Our scheme is also suitable for people who may not have saved into a pension scheme before. We use plain language communications to help potential members understand pensions. The more people understand about pensions, the more confidence they'll have in making a decision on how they save for retirement.

We also look after members' money in a way that's designed to encourage them to save and keep on saving for their retirement.

Like other trust-based schemes, NEST is run on a not-for-profit basis. We also have a number of legal duties, one of which is to act in our members' interests.

Where to go for more information

NEST

Find out more about NEST and its features at www.nestpensions.org.uk including:

- › how NEST is free of charge for employers to use
- › how NEST can be used by employers of all sizes
- › how our straightforward online administration works
- › how NEST looks after members' money
- › how NEST is run.

For other ways to get in touch with NEST, go to the back page of this guide.

The Department for Work and Pensions (DWP)

DWP is the government department responsible for introducing the new workplace pension changes. For more on pension reforms visit www.dwp.gov.uk

The Pensions Regulator (TPR)

TPR is responsible for making sure employers comply with their new duties. Find out how pension reform is being enforced at www.thepensionsregulator.gov.uk

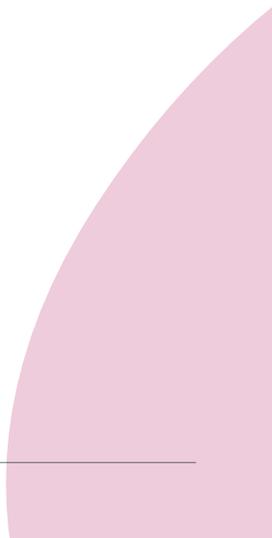
Contact TPR by emailing pensionsreform@thepensionsregulator.gov.uk or calling them on **0845 600 1011**.

Business Link

The Government's Business Link website at www.businesslink.gov.uk also provides helpful information for employers.

Pensions Ombudsman

For complaints and disputes about NEST that we are unable to resolve, members, employers and beneficiaries can contact the Pensions Ombudsman at www.pensions-ombudsman.org.uk





What you need to do and how NEST can help

1 Find out when your employer duties start

It's essential you know when your employer duties will affect your organisation. This will put you in the best position to comply with the new legislation.

The Pensions Regulator (TPR) writes to each employer to let them know the date from which the duties will first apply to them. This is known as their staging date.

Large employers whose duties started in 2012 will have been contacted 18 months before this date with a reminder sent out again 12 months before. All other employers will be contacted 12 months before their staging date.

This date is based on the number of people in an employer's PAYE scheme.¹ In general, employers with the largest numbers of workers in their PAYE schemes will have the earliest staging dates, and the smallest organisations the latest staging dates.

You can find out your staging date at www.thepensionsregulator.gov.uk

Did you know...?

...as long as you agree your approach with your chosen pension scheme and let TPR know, you may be able to bring forward your organisation's staging date.

This might help your organisation avoid less convenient times to make the changes that will allow it to comply such as end of year accounts.

Get in touch with the pension scheme you'd like to use for more details. Remember you'll need to contact them at least 12 months before the new staging date.

Visit TPR's website at www.thepensionsregulator.gov.uk to see the available dates for your organisation.

¹ See Glossary.

2 Understand which workers you need to enrol and make contributions for

Broadly speaking, you'll need to tell those workers affected by your new legal duties in writing, either by paper or email.

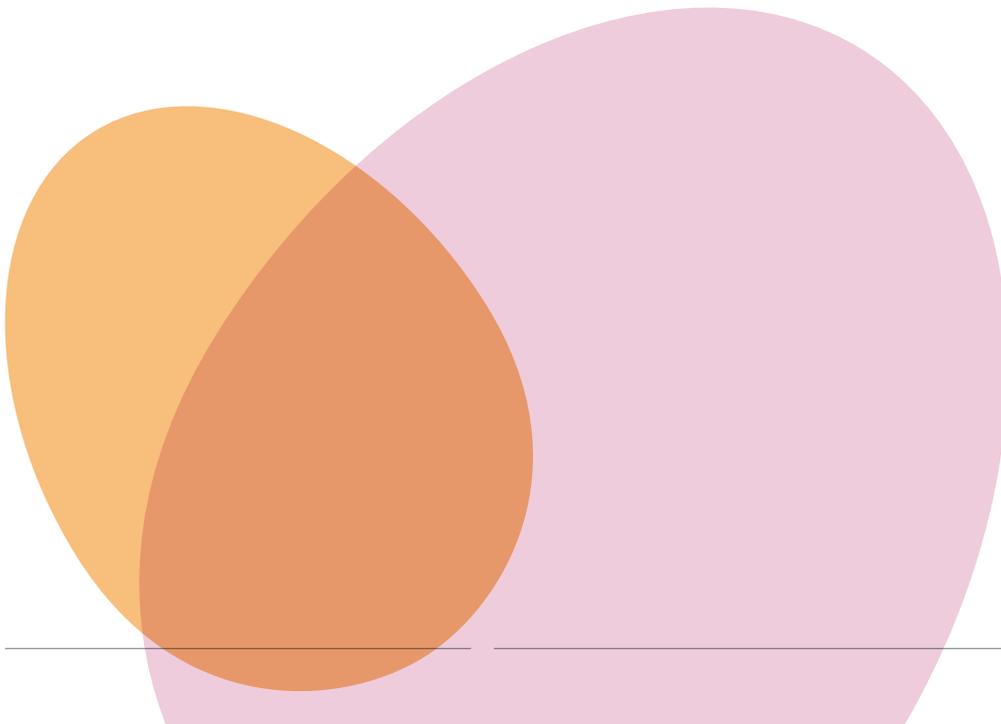
The information you need to tell your workers is set out in legislation. You'll need to include details of the pension scheme you use and the contributions for your workers as well as where your workers can go for more information.

Did you know...?

... NEST helps employers comply with this part of their new duties by providing easy-to-use templates and useful guides.

These are written in plain language to make it easier to communicate with workers about the changes that are taking place.

We use clear language and provide information in 'bite-sized' chunks, meaning you're less likely to need to deal with questions from your workers.



3 Consider whether you can use your current scheme to meet your new duties

It's important that you know what makes a worker eligible for enrolment into a qualifying workplace pension scheme. If they're eligible, you may well need to enrol them into a scheme like NEST.

You may be able to take advantage of a waiting period of up to three months before you have to enrol your workers.

As an employer, you'll need to:

- ▶ automatically enrol and pay minimum contributions for any workers aged at least 22 but under State Pension age, who earn more than £8,105 in a year
- ▶ enrol and pay minimum contributions for any workers at least 16 but under 75 who earn more than £5,564 in a year and who ask to be enrolled
- ▶ enrol any workers aged at least 16 but under 75 who earn less than £5,564 who ask you to enrol them. However, you don't need to pay contributions for them.

These figures apply to the 2012/13 tax year, and will be reviewed every year by the government.

You can get further guidance from TPR about which workers you might need to enrol and make contributions for.

Did you know...?

... as an employer you can contribute more than the minimum requirements, whether you choose NEST or another qualifying scheme.

... if you'd like to pay different contributions for different groups of workers, with NEST you can set this up quickly and simply online.

4 Think about what you might need from an existing scheme

Here are some questions you could think about when considering if any existing arrangement could fit into your organisation.

- ▶ Where is members' money invested and is this approach right for all your workers?
- ▶ How much are the charges to members? Does it provide good value for money for all your workers, even those who may not contribute as much as others or who stop contributing for a period?
- ▶ For workers being enrolled under the new duties, you must check that they aren't required to make a decision, for example about where their money is invested, before they can join the scheme
- ▶ If you have particular groups of workers on different terms and conditions, would they need or want different pension provision from your existing scheme?

Did you know...?

... NEST has developed a bespoke investment strategy based on research into members' needs.

To reflect our diverse future membership, NEST's investment approach combines the reassurance that it's carefully managed for the majority who don't want to choose which fund to invest in, with a set of focused choices for members who do.

Our investment approach gives members access to sophisticated investment management with low charges.

We're transparent and upfront about what members pay. For example, our investment objectives describe the returns we're targeting after all charges have been deducted.

... all NEST members pay the same charge rate, no matter how much they contribute.

No matter which fund members invest in, NEST will levy a low 0.3 per cent annual management charge (AMC) on members' total funds under management, plus a charge on contributions of 1.8 per cent.

Our low charge structure is broadly equivalent to 0.5 per cent AMC for most members over their time saving in NEST.

If £100 is paid into a pot every month, the 1.8 per cent contribution charge would be £1.80 per month.

The 0.3 per cent AMC is taken from the total value of a member's retirement pot over the year.

5 Think about what you might need from a new scheme

Choosing the right qualifying scheme for your organisation and your workers is obviously critical. To help you with this, here are a few questions you may want to consider when looking at your options.

- ▶ How will a new scheme work alongside any existing arrangement you have in place?
- ▶ Is the scheme suitable for those workers who haven't saved in a pension scheme before? How does it invest their money? Does it use clear language to communicate with you and your workers?
- ▶ How would any new scheme support dealing with high volumes of joiners and leavers?
- ▶ How easy is the new scheme to administer?

Did you know...?

...NEST can be used in a number of different ways for different workers.

You can use NEST:

- ▶ as a sole scheme for all the workers in an organisation, if for example, there's no current pension provision in place
- ▶ for a particular group of workers alongside another scheme you're already using for a different category of workers
- ▶ as an entry level scheme where there's an existing scheme that has a waiting period
- ▶ as a base scheme to ensure compliance with the new employer duties, using another scheme to pay in additional contributions.

...NEST's administration processes are simple while being able to deal with complex requirements.

NEST's members have one retirement pot for life. They keep it with them until they take their money out and can keep contributing into it whether they change jobs, stop working or become self-employed.

This means no ongoing administration for you when any workers who are members of NEST leave your employment.

If a worker who is already a member of NEST joins your organisation, you can add contributions to their existing NEST retirement pot.

6 Be ready for minimum contributions

To help employers comply with their new employer duties, minimum contributions will begin at low levels but will increase with time. This is known as phasing.

In 2012 the legal minimum started at 2 per cent of a worker's qualifying earnings. Of this, you need to pay at least 1 per cent. You can pay more if you want to and you can base your contributions on basic pay rather than the qualifying 'band' of earnings set out by the government.

The minimum contribution level will rise gradually to 8 per cent in 2018.

Did you know...?

...employers can use NEST to contribute more than the legal requirements.

There's potential to pay in more than the minimum contributions for most members up to our annual contribution limit of £4,400. For example, someone earning around £25,000 could have 16 per cent of this amount paid into their pot and not go over this limit.

NEST also makes it easy for employers to set contributions. Employers can:

- contribute the minimum contributions in line with any staged increases
 - set contributions at higher rates than the minimum levels instead.
-

7 Understand how opting out works

Workers who have been automatically enrolled into a pension scheme and those with qualifying earnings who have opted in have the right to opt out within one month of membership.

To opt out, workers can complete an opt-out notice and give it to their employer.

When employers receive a member's valid opt-out notice within the one-month period, they must pay back any contributions deducted from the worker's pay. Also, any contributions the employer has made must be refunded to the employer by the pension scheme.

After the one-month opt-out period is over, members can't opt out and get a refund, but they can stop contributing if they want. If they do this any contributions already paid, including those from their employer, will stay in the pension scheme they've chosen.

There are safeguards in place designed to prevent employers from encouraging opt-out among their workers. Read TPR's publications *Opting out* and *Safeguarding individuals* to find out more about this.

Did you know...?

...NEST plans to help you manage opt-outs by allowing members to opt out directly through our website.

Our aim is for newly enrolled members to be able to opt out through our website or by calling us, as long as they do this within the opt-out period of a month.

Our newly enrolled members will receive a letter and welcome pack when they join NEST. This will give them more information on the opt-out process and access to some frequently asked questions some of our newly-enrolled members may have. The opt-out process lets them know what will happen when they opt out and what it means for them.

We also aim to notify employers automatically if a newly enrolled member has opted out.

8 Provide accurate and up-to-date information to the qualifying scheme you've chosen

As an employer you'll need to provide certain information about your workers that's up to date, accurate and in the right format to the qualifying scheme you enrol them into.

Did you know...?

... at NEST we offer a number of different ways employers can give us information about their workers.

Depending on the size of your organisation and what you find easiest, you can enter the information manually online, upload a file through our website or use a secure file transfer.

You can also assign your workers to different groups, for example, if they have different contribution rates and pay periods.

9 Register with The Pensions Regulator (TPR)

The Pensions Regulator (TPR) works with trustees, employers, pension specialists and business advisers to protect members' benefits and encourages high standards in running workplace pension schemes.

All employers with at least one worker must register with TPR to show that they have a qualifying scheme in place within four months of their staging date then re-register every three years.

Employers will be able to register online and by telephone. Other channels for registering may also be available. TPR can provide you with more information on how to register.

You can contact TPR at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
East Sussex
BN1 4DW

Telephone: **0845 600 1011**

Email: **customersupport@tpr.gov.uk**

You can find helpful information about this and other employer duties on TPR's website at **www.thepensionsregulator.gov.uk**

10 Keep detailed pension records for up to six years

Thinking about how you'll manage and maintain accurate data will be an important part of preparing for workplace pension changes.

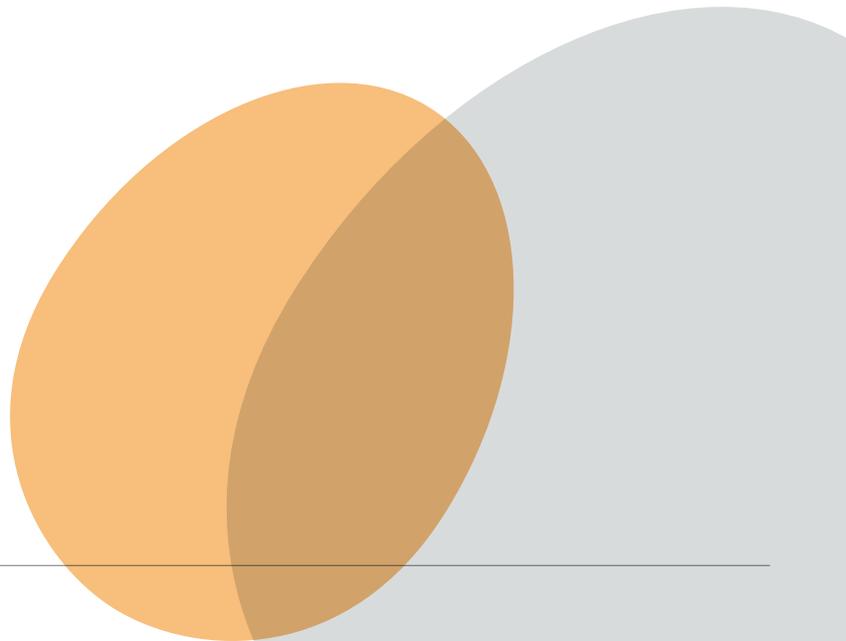
A requirement of pension legislation is for employers to keep specific records about their workers and their pension arrangements. Most of these records must be kept for up to six years.

You can use electronic or paper filing systems to keep or store any records, as long as they can be clearly read or produced if TPR asks to see them.

You'll need to keep track of the ages and earnings of everyone who works for you at all times. This is very important for meeting your legal requirements.

Did you know...?

... if you sign up with NEST our records of the workers you enrol with NEST will be easily available to you to download from our website.



03

Let NEST help you plan

You have a key role to play in helping more people save for their retirement.

We're keen to work with you in planning for automatic enrolment and helping you understand where NEST fits in.

We can help you with the following:

- ▶ letting you know the issues you need to consider
- ▶ suggestions for your workplace communications
- ▶ information about our payroll file formats and what you need to have before you can enrol your workers.

To find out more about NEST, please visit our website

www.nestpensions.org.uk

Email us at **employer.enquiries@nestcorporation.org.uk**

Call us on **0300 303 1949**

Glossary

Some terms you might see as you respond to workplace pension changes:



Annual contribution limit

The maximum amount that can usually be paid into a NEST member's retirement pot in one tax year. This includes member contributions, any contributions from their employer and any **tax relief** from the government. The amount may be higher for members who have more than one employer. This can also be referred to as the contribution cap.

Automatic enrolment

Making a **worker** who meets certain requirements a member of a **qualifying workplace pension scheme** without them needing to make an active decision.

Automatic enrolment of workers started in 2012 for the largest organisations. Medium and smaller organisations will be impacted over the following six years.

Automatic enrolment only applies to workers who earn more than £8,105 who are aged at least 22 and under State Pension age.

Automatic enrolment date

Once automatic enrolment applies to an organisation, it will have to automatically enrol those workers who meet the requirements. When automatic enrolment first applies, the organisation may have a large number of workers whose automatic enrolment date occurs at that time.

After that:

- new UK workers will have an automatic enrolment date on joining an employer if they are at least 22 and under **State Pension age** when they join and earn more than £8,105 a year in 2012/13 terms
- existing UK workers who earn more than £8,105 but are under 22 will have an automatic enrolment date on reaching 22
- existing UK workers who are at least 22 but have not reached State Pension age and do not earn more than £8,105 will have an automatic enrolment date when they first become entitled to earnings of more than £8,105.

These figures apply to the 2012/13 tax year, and will be reviewed every year by the government.

B Base scheme

A base scheme is a workplace pension scheme employers use to pay the legal **minimum contribution** on behalf of their **workers**. A base scheme can be used alongside another scheme into which the employer can pay additional contributions.

C Contribution cap/limit

The maximum amount that can usually be paid into a NEST member's retirement pot in any one tax year. This includes member contributions, any contributions from their employer and any **tax relief** from the government. The amount may be higher for members who have more than one employer. This can also be referred to as the annual contribution limit.

D Defined benefit pension scheme

A type of pension scheme which promises a certain level of retirement income to its members. The amount of retirement income is usually a fraction of the **worker's** yearly earnings for each year they have been a member of the scheme. For example, it might be 1/60th of final pay for each year.

Defined contribution pension scheme

A type of pension scheme where the retirement income a member gets depends on how much has been contributed, investment returns and the amount of charges over time.

E Earnings

Someone's earnings include their salary, wages, overtime, bonuses and commission, as well as statutory sick pay and statutory pay someone receives during paternity, maternity or any other kind of family leave.

Eligibility

These are conditions that somebody must meet to be a member of a pension scheme.

Eligible workers

These are **workers** who must be **automatically enrolled** into a **qualifying workplace pension scheme** when the **employer duties impact** an organisation. Under expected legislation these individuals will work in the UK, be aged at least 22 but have not yet reached **State Pension** age and earn more than £8,105 a year in 2012/13 terms.

Employer duties

The Pensions Act 2008 establishes new duties for UK employers that started to be introduced from 2012. These duties require employers to provide some or all of their workers with access to a workplace pension scheme that meets certain legal requirements. Employers will have to automatically enrol certain workers into a **qualifying scheme** and pay contributions on their behalf.

The duties applied to the largest employers first from 2012. Medium and smaller employers will be affected over the following six years.

Employer duty date

The date at which the employer duties first apply to an employer. This is defined in legislation through The Employers' Duties (Implementation) Regulations 2010.

Enrolment information

The information employers have to give their **workers** as part of the process of becoming a member of NEST or another **qualifying scheme**.

Entry level scheme

An organisation may already have a pension scheme in place with a waiting period. If so, they can enrol their workers into a separate entry level scheme for the length of the existing scheme's waiting period.

F File format

File format describes the kind of files you use when you send us information about your workers and the contributions you make to NEST.

NEST accepts CSV files and XML files.

You can use CSV files for uploading information through NEST's website or for sending files by File Transfer Protocol (FTP).

You can use XML files only when sending information by FTP.

H HMRC

Her Majesty's Revenue and Customs.

I Investment

This is when the money paid into a pension scheme is used to buy financial products like stocks and shares, bonds and properties. These are called investments.

I Investment returns

This is the change in value of an investment over a given period of time which can make it worth more or less.

M Member

For NEST, this means an individual who has joined the scheme and has not yet taken their money out of NEST.

M Minimum contributions

The minimum amount that needs to be paid into a member's retirement pot under the employer duties. This minimum is introduced gradually and will rise to 8 per cent of qualifying earnings in 2018.

N NEST

The short way of referring to the National Employment Savings Trust.

N Not-for-profit

This refers to the fact that NEST has no shareholders.

O Opt in

Workers who have not been automatically enrolled can ask to join NEST. If a worker asks their employer to enrol them, they must do so if the worker is based in the UK, is at least 16 and under 75 and is not already earning benefits in another pension scheme.

O Opt out

Workers who have been **automatically enrolled** into NEST and those with **qualifying earnings** who have **opted in** have the right to **opt out** within one month of the beginning of their membership.

Opt-out notice

A notice given by a member who wants to **opt out** of NEST.

Order

This is a short way of referring to the National Employment Savings Trust Order 2010, the legislation that established NEST.

P PAYE scheme

A Pay As You Earn scheme, or more commonly PAYE scheme, is a tax payment scheme that an employer is required by law to set up where they deduct income tax and National Insurance, if applicable, from a **worker's** taxable wages or salary.

Pension reform

When NEST refers to pension reform, we mean the new duties for employers and the new rights for workers contained in the Pensions Act 2008.

Pensions Act 2008

The legislation that established the new **employer duties**. This means UK employers will have to provide some or all of their workers with access to a workplace pension scheme that meets certain legal requirements. Employers will also have to automatically enrol certain workers into a **qualifying scheme** and pay contributions on their behalf.

Phasing

This refers to the gradual increase of employer contributions into workers' retirement pots starting with 1 per cent, rising to 2 per cent and then 3 per cent in 2018.

Q Qualifying earnings

The earnings band used to calculate minimum contributions. Qualifying earnings are currently those between £5,564 and £42,475 in 2012/13 terms.

Employers can choose to base contributions on another definition of earnings if they want to.

Qualifying scheme

A workplace pension scheme that meets certain minimum standards.

R Retirement income

A retirement income is the money that a member receives after they've taken their money out of NEST and bought a retirement income product, which is also known as an annuity.

Retirement pot

A retirement pot is NEST's name for a pension account. It includes the contributions from the **worker**, the employer, any tax relief and the **investment returns**.

Rules

This refers to the legal rules of NEST. They sit alongside the **order** and set out how NEST operates.

S Sole scheme

A sole scheme is the only workplace pension provision offered by an employer. This could be NEST or another qualifying scheme.

Staging

The new employer duties will be applied in stages rather than from a single launch date. The largest organisations were affected from October 2012, with medium and smaller employers being affected over the following six years.

Staging date

This refers to the date when legal duties come into effect requiring an employer to enrol some or all of their workers into a **qualifying scheme**. Employers will have different staging dates depending on their size.

State Pension

This is the amount of money an individual will receive from the government when they reach State Pension age. Those eligible for the full basic State Pension currently receive £107.45 per week (for 2012/13).

State Pension age

This is the age when people normally start getting their State Pension. Under current Government proposals, State Pension age is set to rise gradually for women from age 60 to age 65 by 2018. This will bring it into line with the current State Pension age for men. From December 2018, State Pension age for both men and women will start to increase to reach age 66 by April 2020.

Note - These proposals are set out in the Pensions Bill 2011.

T Tax relief

The money NEST claims from the government based on what members pay into their retirement pots and HMRC rules.

W Waiting period

This is the length of time an employer can choose to postpone automatically enrolling their workers for. It can be a period of up to three months.

Worker

A person who works under a contract of employment or any other contract which requires them to work or perform services personally for another person or organisation.



Contact NEST

Find out more about NEST at www.nestpensions.org.uk

Email us at employer.enquiries@nestcorporation.org.uk

Call us on **0300 303 1949**



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