AE Technical Changes

automatic enrolment

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The Pensions Regulator

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The information we provide is for guidance only and should not be taken as a definitive interpretation of the law.

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Topics

- New Pay Reference Periods
- Pension scheme quality
- Pension contribution calculations
- Contribution payment deadlines
- Changing Pay Reference Periods
- Joining Window & information provision deadlines
- Deadlines for Registration
- Consultation on exceptions (e.g. Fixed/Enhanced Protection)
- Summary of technical changes
- Other TPR clarifications

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New Pay Reference Periods

- As an <u>option</u>, employers may use a new alternative definition of a Pay Reference Period (PRP) for assessing the eligibility of any given group of workers:
  - The new PRP definition is based on the usual interval between payments of their pay, with the start date of the PRP being aligned to tax weeks or months.
  - Or, if the usual frequency is less than a week or there is no regularity, then the employer may use a tax week PRP.
  - Monthly PRPs would run from the 6th to the 5th of each month.
  - Weekly (or weekly multiples) run in sequence from the 6th April each year. However, as a year does not contain a whole number of weeks, a change of PRPs[†] will need to be carried out each year (e.g. week 53).
  - Defining the PRP as the length of the pay frequency removes the problem of 4,4,5 week pay patterns - if the pay frequency is monthly (i.e. the PRP will be one month).
- Employers may continue to use the existing definition of a PRP if they wish or use the new definition for some, or all, of their workers.
- Effective 1st November 2013.

[†] See subsequent slide on 'Changing PRPs' for details

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Pension scheme 12 month checks (legal minimum schemes†)

- For DC schemes based on the legal minimum†, the current minimum contribution definition (“contribution entitlement PRP”) is based on a contribution entitlement over a 12 month period.
- Since Qualifying Earnings is a band of earnings, you do not know with certainty whether the contributions they are deducting on a pay period by pay period basis are in line with the entitlement in the scheme rules until they get to the end of the 12 months.
- The pension scheme provider has to undertake a reconciliation at the end of the scheme year to check that the contributions paid are equal to the entitlement under the rules of the scheme over the preceding 12 months.
- As an option, and if the pension scheme rules allow it, an employer may align the “contribution PRP” definition to be the same PRP they have used for the assessment of workers and the scheme provider will not need to do this 12 month check.
- So, if they do this, it will be known with certainty what contributions need to be taken.
- Effective 1st November 2013.

† i.e. pension schemes matching the Pensions Act 2008 section 20/26 rules

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Contribution calculations (for legal minimum schemes†)

- Contribution calculations are determined by the rules of the scheme.
- If a jobholder's automatic enrolment date is in the middle of a Pay Reference Period (PRP), the scheme rules may require a part period contributions calculation.
- Amendments to the regulations mean, only for pensions schemes based on the legal minimum†, that:
  - If the employer has chosen the option to change the scheme contribution PRP and eliminate the 12 month contribution check ...
  - Then the first and last contribution will be calculated based on a full Pay Reference Period and there will not be any part-period contributions, so :
    - ➔ if joining in the middle of a PRP - the contribution for that part-period is zero and a full contribution would be due for the following PRP;
    - ➔ for leavers – the final contribution will be based on all Qualifying Earnings payable in the final PRP (even if only a part-period).
- The effective start date for pension scheme membership remains the assessment date and this is not changed by any of these technical changes.
- Effective 1st November 2013.

† i.e. pension schemes matching the Pensions Act 2008 section 20/26 rules

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Contribution example (for legal minimum schemes†)

- This example, based on 2014/15 thresholds, is for a legal minimum scheme with 1% employer + 1% employee contributions, where the Pay Reference Period (PRP) is one month and for a worker who's **pensionable** earnings is **£2,000** each (full) month (e.g. Qualifying Earnings of £2,481 minus the Lower Earnings Threshold amount of £481 = £2,000).
- The employer has chosen the option to align the contribution entitlement PRP to the assessment PRP and there will not be any part-period contributions.

Option taken to eliminate pro-rating?	Worker situation (when joining or leaving pension scheme mid-way through month)	Contribution
Yes	Joining company (earnings on first payday is £1,240)	£0 in first month
Yes	Worker enrolling on 22nd birthday	£0 in first month
Yes	Ceasing membership (total Qualifying Earnings of £2,481)	1% x (£2,481-£481 = £2,000) = £20.00
Yes	Leaving company (earnings on final payday is £1,240)	1% x QE in final month (£1,240 - £481 = £759) = £7.59

† i.e. only for pension schemes matching the Pensions Act 2008 section 20/26 rules

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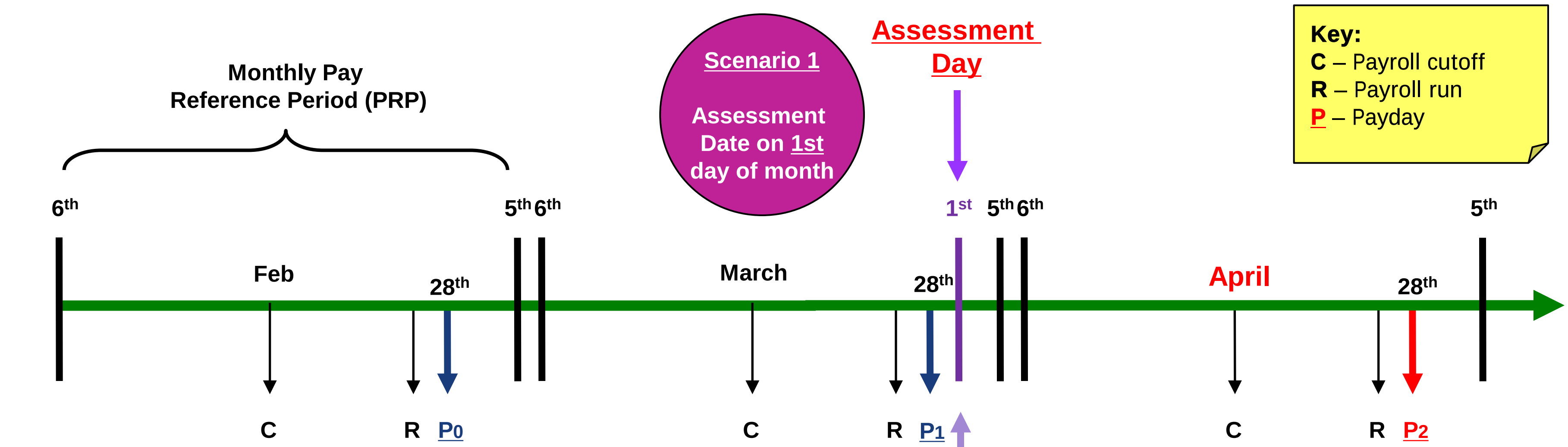
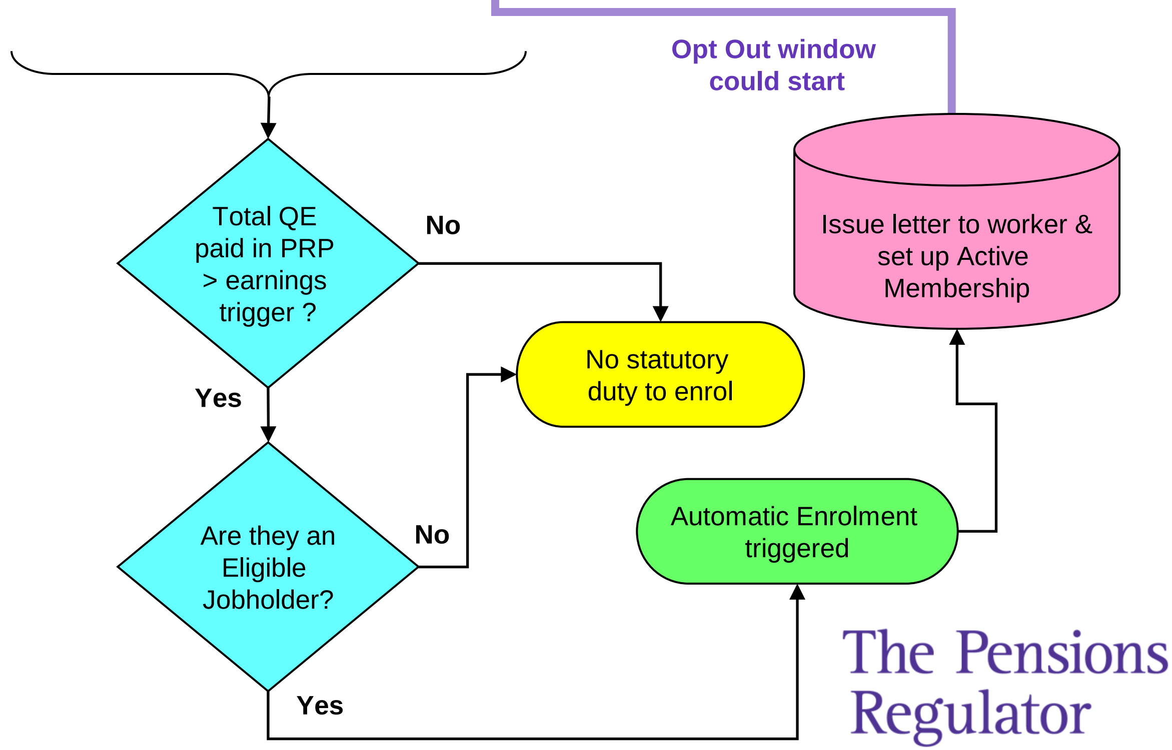


Scenario 1

- Pay Reference Period runs from 6th day to 5th day of each month;
- Assessment date on 1st April (e.g. the **staging date**) is ***after*** the March payday P1 on 28th March;
- Total Qualifying Earnings (in PRP 6th March to 5th April) assessed using old tax year earnings thresholds.

If the worker needs to be automatically enrolled (from 1st April):

- First deduction needs to made in the next payday - P2 on **28th April**;
- Opt Out window could start *before* first deduction taken;
- Contribution based on scheme rules (eg for a legal min scheme, based on 100% of April's qualifying earnings).



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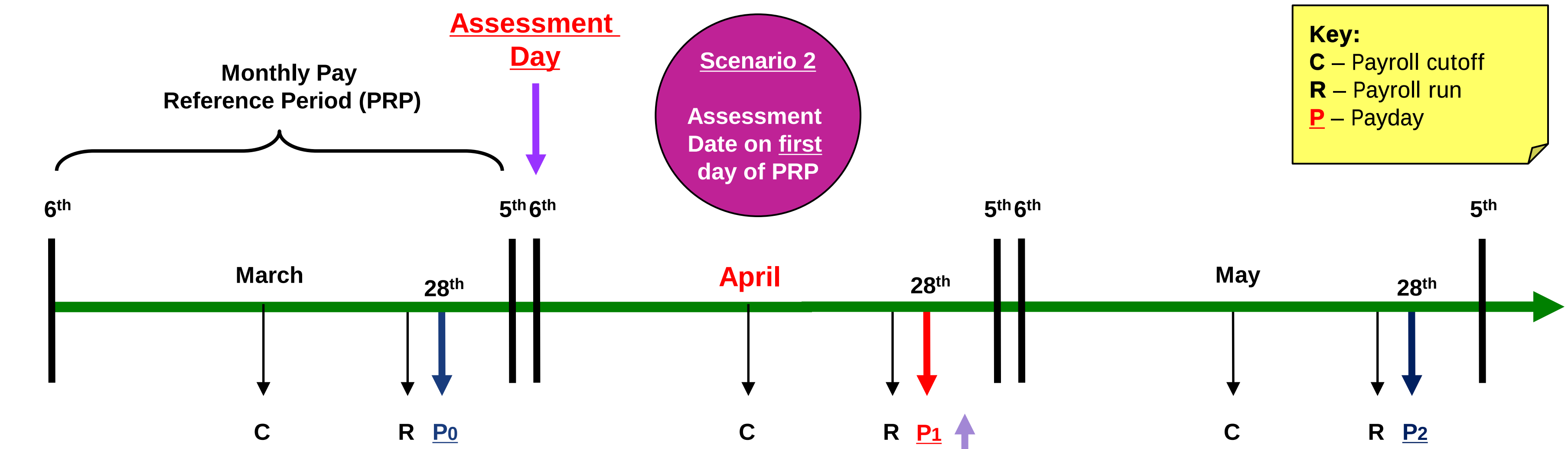
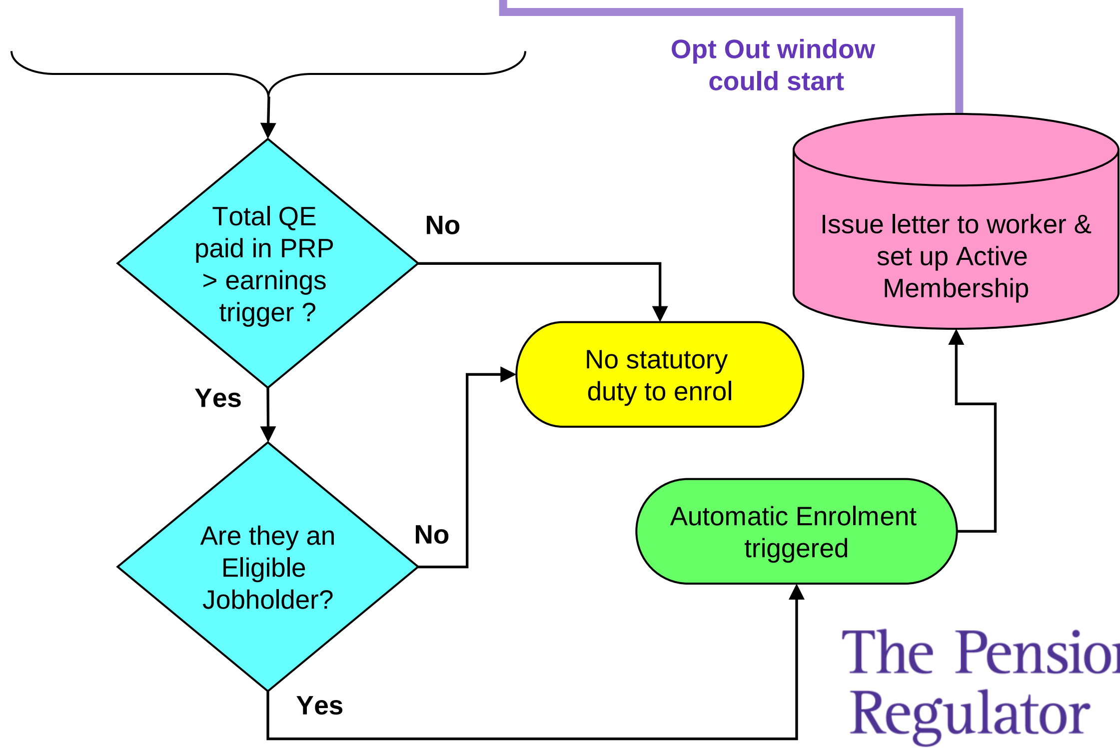


Scenario 2

- Pay Reference Period runs from 6th day to 5th day of each month;
- Assessment date is 6th April (e.g. for workers being monitored);
- Total Qualifying Earnings (in PRP 6th April to 5th May) assessed using new tax year earnings thresholds.

If the worker needs to be automatically enrolled (from 6th April):

- First deduction needs to made in the first payday - P1 on **28th April**;
- Opt Out window will start *after* first deduction taken;
- Contribution based on 100% of April's pensionable earnings (unless scheme rules stipulate otherwise).



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Changing tax week Pay Reference Periods (PRPs)

- PRPs based on one or more tax weeks run in sequence from 6th April each year.
- However, as a year does not contain a whole number of weeks, a change in the sequence of PRPs will need to be carried out each year (e.g. week 53):
  - The gap between the end date of the last full PRP in the old PRP sequence and the start date of the new PRP sequence will need to be considered.
  - For a PRP based on one tax week, the gap will be the one day of 5th April (or 2 days, 4th to 5th April, in a leap year).
  - If a payday falls in this gap, then the employer will need to assess all appropriate workers as normal, based on a final full length PRP (e.g. for a 1 tax week PRP in a non-leap year, from 5th April to 11th April).
  - However, if a payday does not fall in the gap, then all UK workers would be considered Entitled Workers during the gap period.
  - Assessments then restart, based on the start and finish date of the new PRP sequence (e.g. 6th to 12th April for a 1 tax week PRP).
  - If the interval between pay days is unchanged, contribution payment calculations are not affected . Otherwise, pro-rata calculations may be needed, subject to pension scheme rules.

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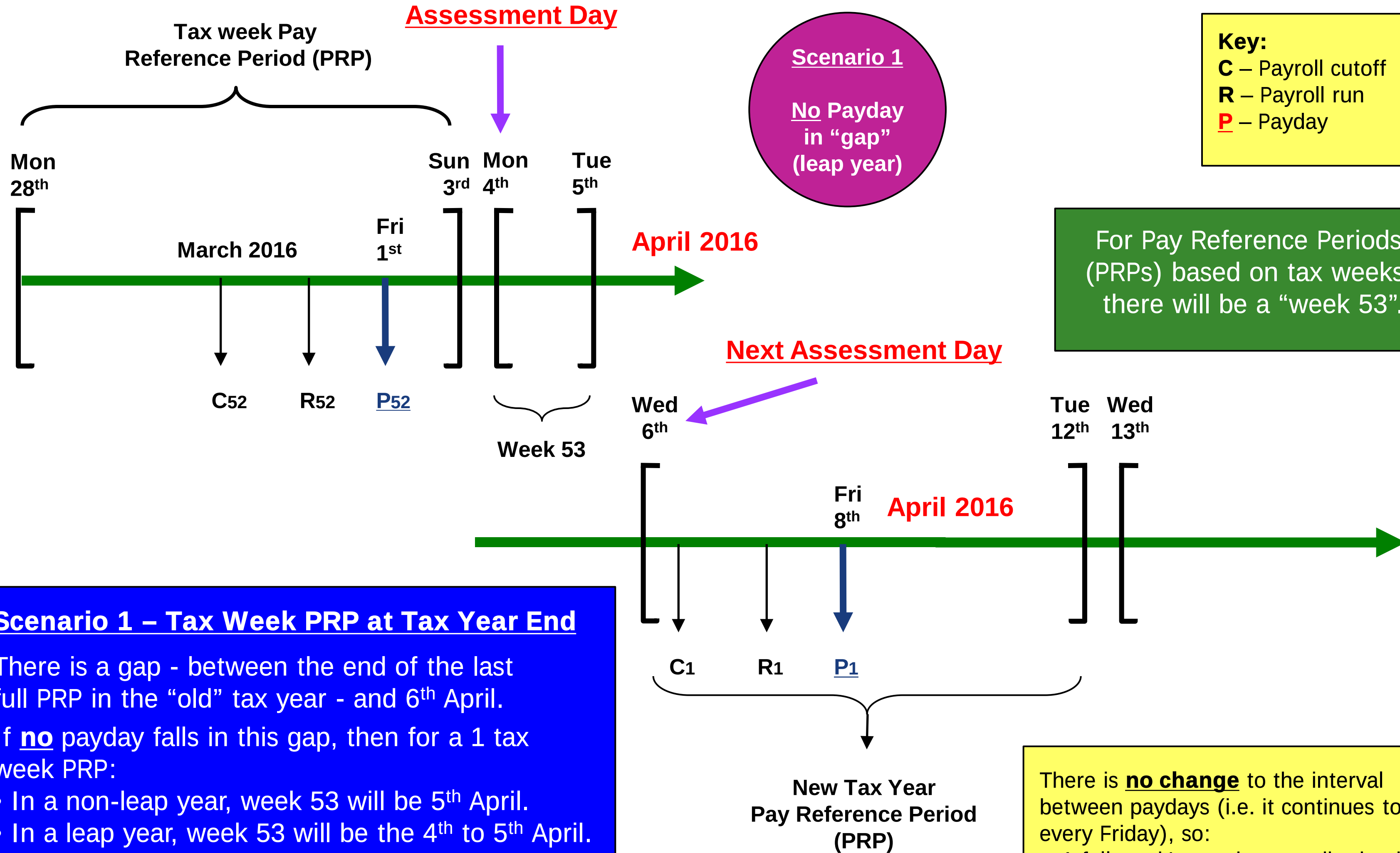

<u>Scenario 1</u>

<u>No</u> Payday in "gap" (leap year)

Key:
C – Payroll cutoff
R – Payroll run
<u>P</u> – Payday

For Pay Reference Periods (PRPs) based on tax weeks, there will be a "week 53".

Scenario 1 – Tax Week PRP at Tax Year End

There is a gap - between the end of the last full PRP in the "old" tax year - and 6th April.

If **<u>no</u>** payday falls in this gap, then for a 1 tax week PRP:

- In a non-leap year, week 53 will be 5th April.
- In a leap year, week 53 will be the 4th to 5th April.

As the total qualifying earnings in week 53 will be £0, UK workers will be Entitled Workers.

The new tax year sequence then re-starts on the 6th April.

There is **<u>no change</u>** to the interval between paydays (i.e. it continues to be every Friday), so:

- A full week's pension contribution is taken on each pay day.

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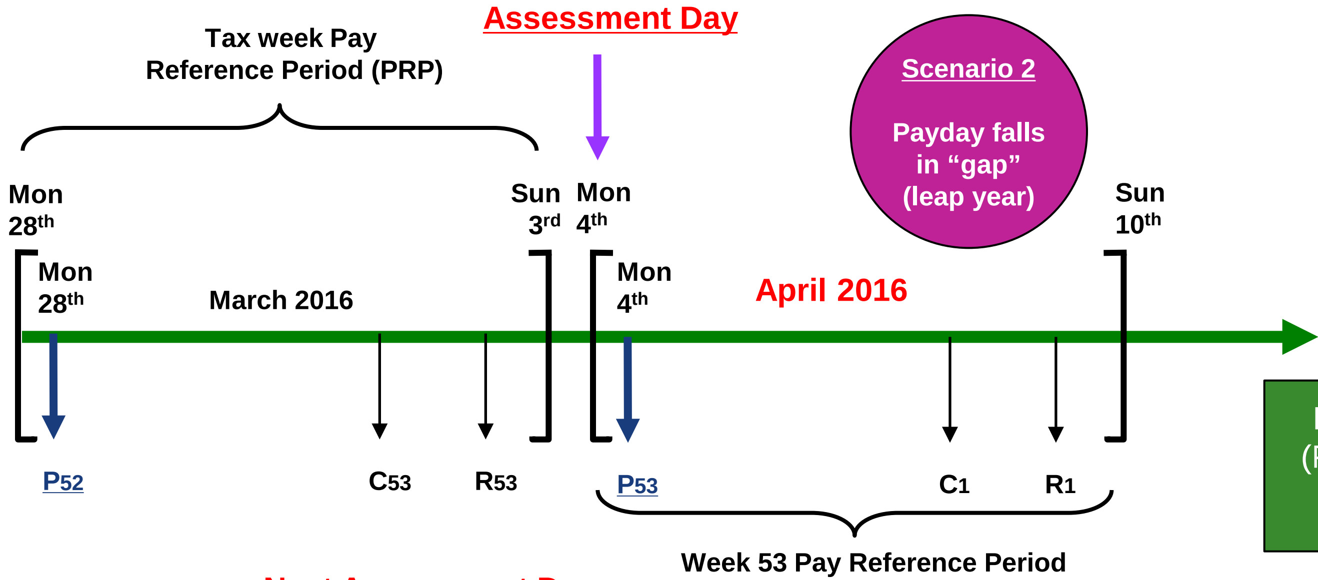
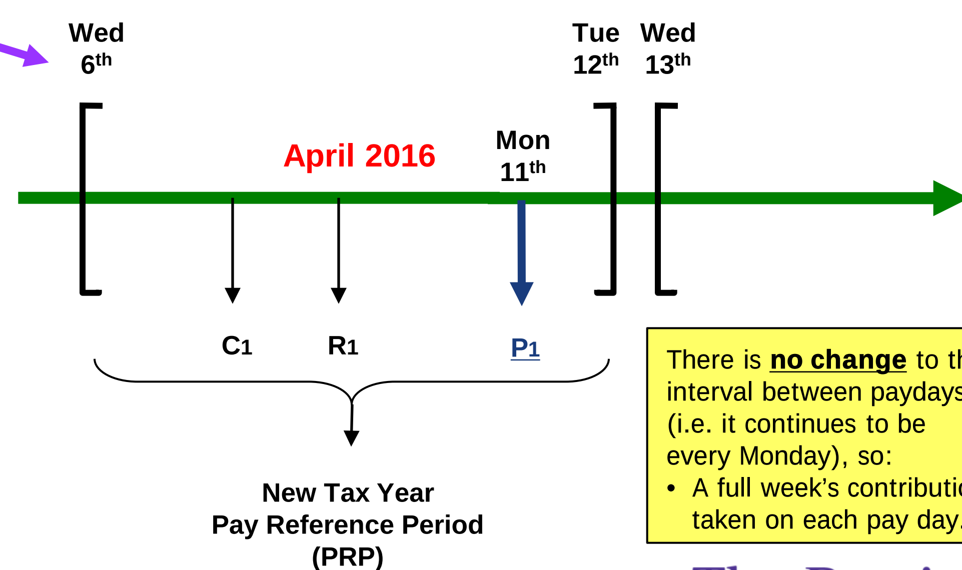
Key:
C – Payroll cutoff
R – Payroll run
P – Payday



For Pay Reference Periods (PRPs) based on tax weeks, there will be a “week 53”.



Scenario 2 – Tax Week PRP at Tax Year End

There is a gap - between the end of the last full PRP in the “old” tax year - and 6th April.

If a payday DOES fall in this gap, then workers will need to be assessed in a final full PRP:

- In a non-leap year, the week 53 PRP will be the 5th to 11th April.
- In a leap year, the week 53 PRP will be the 4th to 10th April.

The new tax year PRP sequence then re-starts on the 6th April.

There is **no change** to the interval between paydays (i.e. it continues to be every Monday), so:

- A full week’s contribution is taken on each pay day.

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Contribution payment deadlines

- Employers must pass contributions deducted from a jobholder's pay to the pension scheme provider by the due date on the payment schedule, but no later than the 22nd day of the month following deduction (for electronic payments).
- However, employers had an option to retain all contributions until the last day of the second month, following the month in which a statutory enrolment occurs (i.e. autoenrolment of an EJH or Opt In of a NEJ).
- The new regulations make the following changes:
  - This easement is being extended to employers who choose to contractually enrol workers to introduce consistency of process.
  - The deadline is extended, so that all contributions deducted during the first 3 months of membership must reach the scheme (for electronic payments) by the 22nd day of the first month, following a three month period commencing on the day active membership is effective (e.g. the Assessment Date).
  - For example, the electronic payment deadline for all enrolments effective between 2nd January and 1st February (inclusive) is 22nd May (for all contributions collected in the first 3 months of each worker's membership).
- Effective 1st November 2013.

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Joining Window & information provision deadlines

- The Joining Window is being extended from one month to six weeks.
- This is to allow employers who run payroll in the latter part of a monthly PRP more time to comply, but will apply to all PRP types.
- The window automatically gets extended from 1 month to 6 weeks on 1st April 2014.
- Any employer who starts a joining window on or after 1 April 2014 will get a 6 week window, together with any employer who has a 1 month joining window which straddles 1st April 2014.
- As a consequence, the deadline for employers to provide enrolment information, workers opt in rights and joining rights is also extended from 1 month to six weeks, as is the deadline for providing a postponement and Transitional Period notice.
- Effective 1st April 2014.

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Deadlines for Registration

- Employers <u>MUST</u> register with TPR to confirm they have complied.
- The deadline is 4 months after the Staging Date and 1 month after every re-enrolment date.
- All postponements applied at the staging date must have come to an end before registration can be completed.
- As a consequence of the extended joining window, the registration deadline is also being extended:
  - From 4 months after the staging date to **<u>5 months</u>**.
  - The re-registration deadline is being extended from 1 month to **<u>2 months</u>**.
- This means that employers who stage from 1st January 2014 onwards will get a 5 month deadline.
- Effective 1st April 2014.

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Consultation on Exceptions

- DWP have confirmed in their response that they will consult on whether to exclude certain categories of worker from AE.
- For example, those who have HMRC Enhanced or Fixed protection and those who have already given notice of retirement when they come to their AE date.
- Consultation document planned to be issued in early 2014.

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Summary of AE Technical Changes

Change	Date effective
New Pay Reference Periods - tax period / pay frequency based	1st Nov 2013
Pension scheme quality – 12 month test optionally removed	1st Nov 2013
Pension contribution calculations – may not need to pro-rate	1st Nov 2013
Contribution payment deadlines	1st Nov 2013
Changing tax week Pay Reference Periods	1st Nov 2013
Joining Window & information provision deadlines – 6 weeks	1st April 2014
Deadlines for Registration - extended by 1 month	1st April 2014
Possible exclusions – including HMRC Fixed/Enhanced Protection	DWP to consult

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Summary of deadlines applying from 1st April 2014

Action / Communication	Deadline
Letter to existing qualifying pension scheme members at Staging	2 months after Staging (no change)
Letter to workers who are *not* already in a qualifying pension scheme at Staging	6 weeks after Staging
Joining Window, enrolment notifications & Transitional Period notices	6 weeks from the Assessment date (e.g. before midnight of Mon 12th May, if assessed Tue 1st April).
Opt Out Window	1 month (no change) - from the latest of when: • the enrolment notification is issued; and • active membership is achieved.
Postponement notices	6 weeks from the day after the Assessment Date (e.g. before midnight Tue 13th May, if assessed on Tue 1st April).
Complete Registration after Staging	5 months after Staging
Complete Registration after Re-enrolment	2 months after Re-enrolment
Normal contribution payments to scheme provider	22nd day of the month (no change) following the month of deduction (19th day for non-electronic payments).
New member contribution payments to scheme provider (for all deductions made in first 3 months of membership) - Effective 1/11/2013	22nd day (for electronic payments) of the first month, following a three month period starting the day active membership is effective (19th day for non-electronic payments). Eg Enrolments 2nd Jan to 1st Feb = e-payment deadline is 22nd May.

Other TPR clarifications – to existing legislation

- An employer may re-issue a Postponement Notice, with a different date for the end of Postponement, if the one month deadline has not yet passed.
- For Opt Ins, enrolment of jobholders should be from the beginning of the first PRP following the PRP in which the request was received – unless payroll cut-off has been passed (in which case it will be from the beginning of the next PRP):
  - The payroll cut-off referred to above, is the one pertaining to the payday which falls in the first following PRP.
  - So, if it is too late to adjust the jobholder's pay to make the pension contribution deductions in the first following PRP, it will delay enrolment one more PRP.

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