First Briefing, April 2009
Auto Enrolment

The Department for Work and Pensions (DWP) has just published a set of draft regulations setting out how the auto enrolment and subsequent opt out process will operate when Personal accounts are introduced in 2012.

By way of reminder, come 2012 employers will be required to “auto enrol” all their eligible employees into Personal Accounts or a suitable alternative work based pension scheme.

Personal Accounts is the pension scheme being set up by the Government into which employees and employers will be required to contribute 4% and 3% respectively of the employee’s earnings (well actually earnings between about £5,000 pa and £33,500 pa).

This Briefing looks at the proposed auto enrolment process; a later Briefing will examine the options available to employers who wish to use an alternative work based pension scheme rather than Personal Accounts.

Auto Enrolment

In order to encourage the take up of work based pension schemes in 2012 employers will be obliged to auto enrol all their eligible employees into Personal Accounts or a suitable alternative. For the sake of brevity during the rest of this Briefing we will just refer to Personal Accounts.

One other point to note is that “eligible employees” are those aged between 22 and state pension age who earn over £5,035 pa. In other words, almost all employees.

Any of these employees who do not wish to be in Personal Accounts can opt out and it is the procedures surrounding the enrolment and possible opt out that are covered by these draft regulations.

The procedures are not straightforward and rather than try and describe them or illustrate them with a flow chart we thought it would be more instructive to listen in to what might be a typical conversation taking place in 2012 between an auto enrolled employee in her late twenties and her employer.

However, before doing this we would like to stress that First Actuarial is supportive of work based pensions and the following is an attempt to get across in an easy to understand fashion the auto enrolment process being proposed in the draft regulations

Employee: *Why has my take home pay reduced this month?*

Employer: *This is because I have auto enrolled you into Personal Accounts, the new work based pension scheme launched by the Government.*

Employee: *I don’t want to be in Personal Accounts. Can I opt out?*

Employer: *Yes, you can opt out if you want to.*

Employee: *OK, I opt out.*

Employer: *It is not as simple as that, you have to complete an opt-out form.*

Employee: *OK, can I have one please?*

Employer: *No, I am not allowed to give you one*.

Employee: *How do I get one, then?*

Employer: *You get one from the scheme provider*.

Employee: *Can't I just ring them up and tell them I want to opt out?*

Employer: *No, you must fill in the form*.

Employee: *Can I write to them instead?*

Employer: *No, you must fill in the form*.

After a few days the employee has managed to get an opt-out form from the scheme provider.

Employee: *OK, I have filled in the opt-out form, do I send it to the provider*?

Employer: *No, you give it to me.*

The employee does this after which the employer refunds the deduction made from the employee's pay and then sets about getting this and the employer contribution back from the Personal Accounts administrator.

Things then settle down and run quite smoothly until 2015 when the employer auto enrols the employee for the second time and once again deducts contributions from her pay. This triggers a similar conversation to that which took place in 2012, although this time the employee is rather more cross than she had been three years earlier.

When auto enrolment has been unwound for the second time and the employer has once again recovered the contributions from the scheme provider the employee has one further question.

Employee: *I told you in 2012 that I did not want to be in Personal Accounts and you have just put me back in again in. How many more times do I have to tell you that I do not want to be in Personal Accounts?*

Employer: *Ten**

* Based on being auto enrolled every three years until state pension age

Auto Enrolment

So as they stand these draft regulations will place quite an administrative burden on employers, particularly when you consider that all (eligible) employees not in a suitable scheme in 2012 will need to be auto enrolled, as will all new employees. Further, the idea is that, in most circumstances, new employees will be auto enrolled on the day they start work.

First Actuarial will be responding to the consultation exercise and will be putting the case for an approach that aims to achieve the desired end result but in a more efficient manner.

If anyone would like to contribute to our response please e-mail your comments to response@firstactuarial.co.uk. We will do our best to incorporate any comments we receive.

Following the end of the consultation period, and once the final regulations are known, a further Briefing will be issued.

Should you require any additional information in the meantime, please get in touch with your usual First Actuarial contact.

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