

Ten automatic enrolment myths & 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 IRIS looks at 10 myths surrounding automatic enrolment and set the record straight.

Background to automatic enrolment

People are living longer, with healthier lifestyles; as a result the ratio between the workforce and those at a 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.

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 (£111 for 2014-15)

If a worker meets all three of these criteria they are classified 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 can still 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 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.

Myths & Truths

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.

4) MYTH

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

TRUTH

Some workers that are classified as “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.

Myths & Truths

6) MYTH

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

TRUTH

It is up to 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.

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 will be legally required to comply with automatic enrolment.

The point at which businesses need to comply is called a “staging date” and is based off the number of 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 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

Myths & Truths

9) MYTH

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

TRUTH

According to a recent survey taken by IRIS, 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 are urging businesses to start preparing for automatic enrolment 12-18 months prior to their staging date to ensure they can get the relevant systems and processes in place.

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 they can comply with automatic enrolment.