



Auto Enrolment: Workplace Pensions (Part 2) – Contributions and Key Terms

Following on from last month's tip with an introduction to Auto Enrolment, this month we will look at the contributions involved with auto enrolment pensions and some key terms you'll be hearing over the coming years.

Contributions:

By contributions, this means the amount both the **employee** and **employer** will contribute to the employee's pension pot. For many companies this may involve an increased cost for each employee enrolled into the pension. Below is the proposed contribution period (This may still change):

**	Employer	Employee	Employee Tax Relief++	Minimum Contributions
Up to Oct 2017	1%	0.8%	0.2%	2%
From 1 st Oct 2017	2%	2.4%	0.6%	5%
From 1 st Oct 2018	3%	4%	1%	8%

**These percentages and dates could be subject to change.

++ If the employee pays income tax, the government will add money to the pension in the form of tax relief.

The tax relief will be shown differently depending on the pension type being used – either a 'Net Pay Agreement' (NPA) or a 'Relief at Source' (RAS). If running an 'NPA' pension, the employee will see a 1% reduction on their payslip. Running a 'RAS' pension, the employee will see the 0.8% on the payslip and the 0.2% tax relief is added by the government.

Note that these contributions are based on the bare minimum **employer** contributions, so that as long as the 'Minimum Contributions' are met, the contributions being taken are enough. For example, the minimum employer contribution up to October 2017 is 1% and the minimum total contributions are 2%, this means the employer can choose to contribute the whole 2% and the employee to contribute 0%.

All the help you'll need to understand tax relief with pensions: www.nidirect.gov.uk/workplace-pensions-and-tax-relief

Key Terms:

Auto Enrolment: This is the term used to describe the changes to pensions, where companies will automatically enrol eligible jobholders into a qualifying work place pension scheme.

Workplace Pensions: This is the pension scheme setup for your retirement that's arranged by the employer. Both the employee and employer can contribute.

Staging Date: This would be the date by which, companies should start enrolling eligible jobholders into a qualifying pension scheme.

Postponement: Employers can postpone their staging date but only under certain circumstances. Postponement allows employers to avoid difficult pro-rated calculations for pension contribution deductions and allows the avoidance of problems relating to refunding of contributions due to people opting out in a different tax year to the one in which the deduction was made.

Contributions: This is what both the employee and employer will pay into the employees' pension pot. See the 'Contributions' part of this tip for more information.

Qualifying Earnings: These are earnings used to identify if an employee is an eligible or non-eligible jobholder and the level of pension contributions. This includes: basic pay, wages, salary, bonuses, overtime, commission and any maternity/paternity/adoption/sick pay.

Opt Out: Employees who qualify for auto enrolment or who have been automatically enrolled can choose to opt out of the pensions if they so wish.

Opt In: Certain employees can choose to opt in to the pension unless they are already an active member of a qualifying pension scheme.

Net Pay Agreement and Relief at Source: These refer to the employee tax relief on the pension. A Net Pay Agreement pension means the employee will see a reduction on their payslip. Relief at Source pension means the employee will see the smaller reduction on the payslip and another amount of tax relief is added by the government. See the 'Contributions' part of this tip for more information.

The Pensions Regulator: They are the UK regulator of work-based pensions. They are responsible for auditing companies ensuring that employers are compliant with auto enrolment.

NEST: The National Employment Savings Trust is a pension provider available to all employers who want to use them. They offer a pension scheme designed for automatic enrolment that any UK employer can use to meet their new workplace pension duties, no matter what the size of the organisation.