

# A useful guide to automatic enrolment

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In this third of a series of articles, we will look at;

- Contribution Levels and Pensionable Pay
- Certification
- Phasing Contributions (Certification)

## Contribution Levels and Pensionable Pay

Following the introduction of automatic enrolment (also known as auto-enrolment), employers will be legally required to make a minimum contribution to most of their employees pensions.

The minimum contribution level for all workers is currently set at 2% of their 'qualifying earnings'. The employer must pay at least 1% and the employee must pay at least 1%. The minimum contribution level will gradually increase to 8% by October 2018, of which employers must pay at least 3%.

Qualifying earnings are a band of gross annual earnings on which the employer can calculate contributions for auto-enrolment. This is currently between £5,772 and £41,865 for the 2014/15 tax year; but will be reviewed annually by the Government. Qualifying earnings include a worker's salary, wages, overtime, bonuses and commission, as well as statutory sick pay, maternity, paternity and adoption pay.

Existing pension schemes tend to make contributions from the first pound earned and will have a definition of pensionable pay on which contributions are based on. This definition is likely to be different to qualifying earnings, e.g. not including overtime or bonuses.

## Certification

Employers can use certification instead of qualifying earnings to define pensionable pay and ensure the legal minimum contribution level is met. Many employers will choose to do this to avoid changing their existing pension scheme rules or to simplify member communication and understanding. The table below illustrates the minimum contribution levels based on qualifying earnings (QE) or the three certification 'sets'.

	Earnings definition	Minimum employer contribution %	Minimum total contribution %
QE	Band earnings between £5,772 and £41,865	<b>3</b>	<b>8</b>
Set 1	Pensionable pay at least equal to basic pay	<b>4</b>	<b>9</b>
Set 2*	Pensionable pay at least equal to basic pay and at least 85% of total earnings across the scheme	<b>3</b>	<b>8</b>
Set 3	Pensionable pay equal to total earnings	<b>3</b>	<b>7</b>

Employers can then self-certify that their scheme meets the minimum requirements. To do this, employers will need to issue a certificate confirming that they are paying contributions in accordance with their set, at the start of their scheme and then at least every 18 months from this date. Certificates must be kept for six years after their expiry. The Pensions Regulator has the right to see this on request.

The employer will have one month from the effective date of the certificate to carry out checks and calculations and sign the certificate. The effective date is either the employer's staging date or later deferral date.

## Phasing Contributions (Certification)

If an employer chose to phase contributions up to 2018, they would follow the illustration below for each set.

Timeline	Set 1	Set 2	Set 3
Staging Date to 30 September 2017	3% (2% employer)	2% (1% employer)	2% (1% employer)
1 October 2017 to 30 September	6% (3% employer)	5% (2% employer)	5% (2% employer)
1 October 2018 Onwards	9% (4% employer)	8% (3% employer)	7% (3% employer)

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