Puzzled By Pensions?

Guide To Auto-Enrolment 2024/2025

Guidance for Usdaw members

USDAW PENSIONS

Introduction

2012 was a milestone year for the workplace pension rights of millions of UK workers. We've all read the newspaper headlines about the pensions crisis that we face in this country.

The good news is that most of us are living longer lives and can look forward to a longer retirement than our parents and grandparents. The bad news is that millions of us are saving too little for our retirement, and what we have saved is going to have to be stretched over a greater number of years.

If we are going to have to put money aside for retirement then we need assistance to help us build up a decent pension pot, and that is why the 2012 Workplace Pension Reforms were introduced. These reforms have been described as the most radical change to workplace rights since the introduction of the National Minimum Wage.

We agree and that is why Usdaw gave its full backing to the introduction of the reforms and encourages you to support them too – our reps have done fantastic work over the last few years by taking Usdaw's Pensions Awareness Campaign into workplaces all over the country.

We need to continue to give our members the facts about the reforms – contributions increased to a minimum of 8% in April 2019 and we need to make sure that our members do not lose out by not taking advantage of their pension rights.

Paddy Lillis
General Secretary

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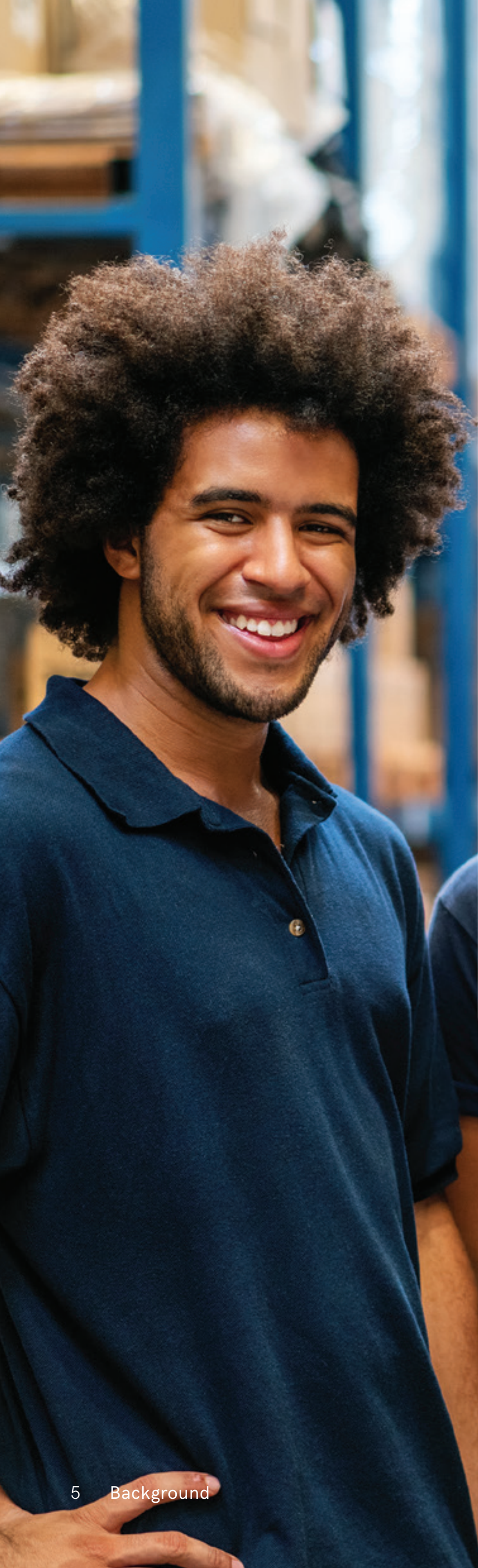


Background

From October 2012

- Every UK employer has a duty to start automatically entering qualifying workers into a pension scheme. This is called auto-enrolment.
- Employers must make compulsory contributions towards workers' pension savings.
- The Government will also chip in by giving you tax relief on your pension contributions so that every £1 you pay in only costs you 80 pence.

We are calling on our reps and members to help us support auto-enrolment too.

Pension Reform by Numbers

- 86% – the percentage of UK employers who didn't offer their workers a pension scheme.
- 14 million – the number of workers who had no access to a workplace pension scheme. This was more than half of the UK workforce.
- 1/3 – the proportion of workers who chose not to join their company pension – even if the employer was offering to contribute towards it.
- 3 million – the number of private sector workers that were contributing to a workplace pension – the lowest figures since the 1950s.
- 13% – the proportion of UK private sector workers that were paying into a pension scheme.
- 2:1 – by 2050 it is predicted there will only be two working age people to every one pensioner in the UK. In 2005 there were four workers for every one pensioner. In 1901 the ratio was 10:1.
- 28 years – that's how much longer a 65 year old woman in 2050 will be expected to live. A 65 year old man in 2050 will expect to live for another 26 years.
- 31% – the percentage of workers who started a new job without knowing whether there was a pension scheme on offer or not.

In 2002, the last Labour Government set up the Pensions Commission to try and find a way forward so that generations of future pensioners – today's workers – don't have to fear a retirement spent struggling to make ends meet.

The numbers opposite reflect the findings of the Commission and this paved the way for the introduction of auto-enrolment.

Auto-enrolment and compulsory employer pension contributions were the most radical of the changes put forward by the Commission.

These reforms mean that millions of UK workers will have the opportunity to save for a pension for the very first time.

The success of the reforms is crucial if we are to save enough to make sure of a comfortable retirement at the end of our working life.

What Is Auto-Enrolment?

In the past, workers generally had to make an active decision whether or not to join the company pension scheme.

Under the reforms, workers now have to be entered into a workplace pension scheme automatically. This is called auto-enrolment.

Also, employers must make compulsory contributions towards workers' pension savings. The minimum employer contribution started at 1% of qualifying earnings and this rose to 3% in April 2019.

The total minimum contribution (made up of both employer and employee contributions) started at 2% of qualifying earnings from October 2012 and rose to 8% in April 2019.

When?

Auto-enrolment began in October 2012. It started with the biggest employers (including all of the Usdaw 'Big 4' – the Co-operative Group, Morrisons, Sainsbury's and Tesco) it has then gradually extended to smaller employers over a five year period. All employers started auto-enrolment by October 2017.

Who?

To qualify to be auto-enrolled, workers must be between 22 and State Pension Age (that is, the age when you become eligible to start claiming your State Pension). You must also have earnings above the minimum earnings threshold (currently £10,000 a year).

Summary

- **All employers must now enter their employees into a workplace pension scheme – this is called auto-enrolment.**
- **Workers are entitled to a compulsory minimum pension contribution from their employer.**
- **Workers aged between 22 and State Pension Age and earning more than £10,000 a year will qualify for auto-enrolment (2024/2025).**

Who Is Affected?

If you are not already contributing to your employer's pension scheme then you will qualify to be auto-enrolled if all of the below apply to you:

- You are aged 22 or older.
- You have not yet reached State Pension Age.
- You earn more than the minimum earnings threshold (currently £10,000 a year).
- You work in the UK.

Opting Out

You can opt out of auto-enrolment but you will have to apply to do so.

Usdaw believes that it is not in the best interests of workers to opt out. We want to encourage our members not to opt out – to stay enrolled – and take full advantage of employer contributions towards your pension savings.

If you do opt out then your employer must re-enrol you every three years until you reach State Pension Age.

If you do opt out you will have one calendar month during which you can receive a refund of your contributions (less tax).

If you opt out after the first calendar month, your benefits will remain in your pension pot.

Young Workers

Young workers between 16 and 21 have the right to join the pension scheme but in order to qualify for the minimum employer contribution, they must earn over the lower limits of £120 per week.

Even if you do not automatically qualify for auto-enrolment, your employer must give you information about the pension scheme and let you know how to join.

If you are aged	Action or choices
16 - 21	– Your employer does not have to auto-enrol you. – You can opt to join. – You are entitled to employer contributions if you earn over £120 per week.
22 to State Pension Age (and you earn more than £192 per week)	– Your employer must auto-enrol you. – You are entitled to employer contributions. – You can apply to opt out.
State Pension Age to 75	– Your employer does not have to auto-enrol you. – You can opt to join. – You are entitled to employer contributions if you earn over £120 per week.

Workers Over State Pension Age

The same rules apply if you are above State Pension Age but younger than 75. You don't have to be auto-enrolled but you must be given the option to join. If you do join, employer contributions can be stopped once you reach your 75th birthday.

Low Earners

Even if you earn below the annual earnings trigger of £10,000 (£192 per week) you must be given the option to join the pension scheme, however, your employer does not have to auto-enrol you – you must ask to join.

If you have earnings between £120 and £192 per week, then you can join your workplace pension scheme and you will be entitled to the minimum employer contribution towards your pension.

If you earn less than £6,240 a year your employer does not have to auto-enrol you. You can join your employer's pension scheme but your employer does not have to make any contribution towards your pension.

The earnings thresholds are reviewed by the Government every year. The figures quoted are correct for 2024/25.

If you earn	Action or choices
More than £192 per week (and are aged between 22 and State Pension Age)	– Your employer must auto-enrol you. – You are entitled to employer contributions. – You can apply to opt out.
Between £120 and £192 per week	– Your employer does not have to auto-enrol you. – You can opt to join. – You are entitled to employer contributions.
Less than £120 per week	– Your employer does not have to auto-enrol you. – You can opt to join. – You not are entitled to employer contributions.

Short-Term Workers and Agency Workers

Agency workers are also entitled to be auto-enrolled as long as they meet the normal qualifying criteria. If you are an agency worker, the responsibility for auto-enrolling you and paying your pension contributions lies with whoever pays your wages. That might be the company that you are working for or the agency you are registered with.

Employers can take advantage of a three month waiting period before they auto-enrol you. This means that if your contract is for less than three months then the employer might not have to auto-enrol you straight away.

There are rules to prevent employers from abusing the waiting period. The employer must check to see if your auto-enrolment has already been postponed once in the last 12 months. If it has then they must auto-enrol you.

Summary

- **If you are between 22 and State Pension Age and earn more than £10,000 a year then you qualify for auto-enrolment with the minimum employer contribution.**
- **The following do not have to be auto-enrolled but have the right to join the pension scheme and receive the minimum employer contribution:**
  - **Age 16 to 21.**
  - **State Pension Age to 75.**
  - **Workers on very short-term contracts.**
  - **People earning between £6,240 (£120 per week) and £10,000 (£192 per week) a year.**
- **If you are earning less than £6,240 a year you have the right to join the pension scheme but your employer does not have to make the minimum contribution.**

When Was Auto-Enrolment Introduced?

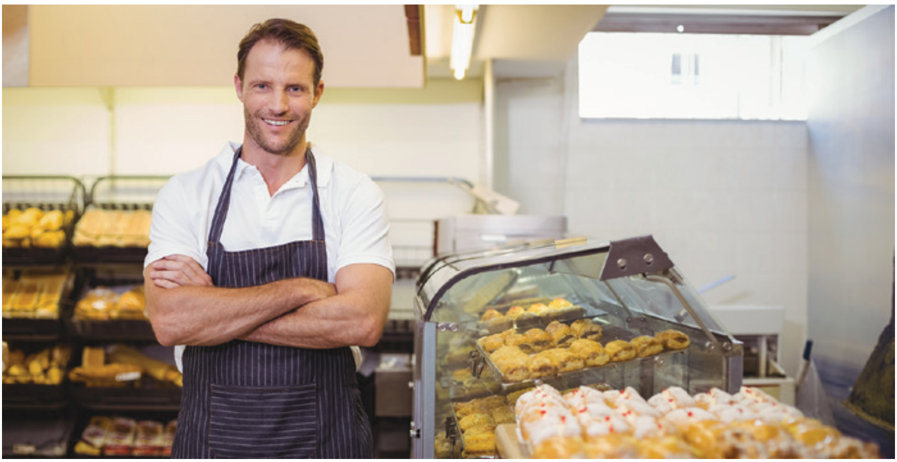
Auto-enrolment was introduced in 2012 and took place over a five year period up to 2017.

Each employer was allocated a start date (known as their staging date) by which they had to have begun auto-enrolment. The start date was based on how many people they employed. The process started with the biggest employers – right down to those employing only one person.

By October 2017 all existing employers had to have started auto-enrolment.

Auto-Enrolment Timetable

Auto-enrolment start date	Number of employees
October 2012	120,000 or more
November 2012 - March 2013	10,000 - 120,000
April 2013 - September 2013	1,250 - 9,999
October 2013 - February 2014	250 - 1,249
April 2014 - April 2015	50 - 249
June 2015 - April 2017	Less than 50
May 2017 - September 2017	New employers set up between April 2012 and 2017
October 2017 onwards	New employer set up from October 2017



Your employer can auto-enrol you from day one of your employment or they can use a waiting period before auto-enrolment. The waiting period (also known as deferment period) cannot be longer than three months. You can opt in to the scheme during the waiting period if you want.

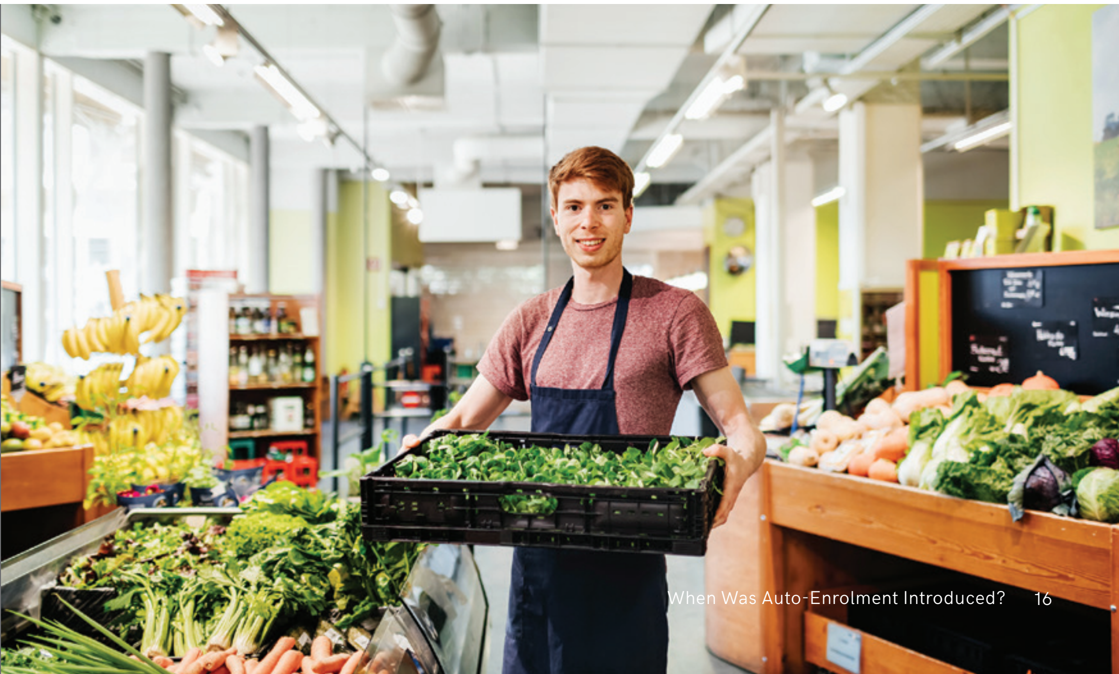
Many retail employers have taken advantage of the three month waiting period so that they don't have to auto-enrol casual workers employed over the busier periods.

Special Rules for Defined Benefit Schemes

Any employer that had an open Defined Benefit Scheme (like a Final Salary Scheme, a Career Average Revalued Earnings (CARE) Scheme or a Cash Balance Scheme) which still admitted new members could postpone auto-enrolment for existing employees until October 2017 at the latest.

Summary

- Auto-enrolment began in October 2012 with the biggest employers – including Sainsbury's, Morrisons, Tesco and the Co-operative Group – starting first.
- All employers had to start auto-enrolment by October 2017.
- Employers who allowed workers to join a Defined Benefit Pension Scheme (like a Final Salary or CARE Scheme) were allowed to delay auto-enrolment until October 2017 at the latest.



What Are You Entitled To?

New Minimum Contributions

Minimum contribution rates for both you and your employer were introduced in stages.

Employee contributions receive a tax top up known as tax relief from the Government, which means that every £1 you pay into your pension only costs you 80 pence.

Put another way, when the minimum statutory level for employees increased to 5% in April 2019, because you receive tax relief this will mean you will only actually pay 4% of your earnings.

Date	Employer must pay	Employee	Total
October 2012 – March 2018.	1%	1%	2%
April 2018–March 2019.	2%	3%	5%
April 2019 onwards.	3%	5%	8%

Employers can also choose to pay more than the above statutory minimum contributions into your pension pot, if they wish.

Contributions don't have to be split in the same way as above as long as the total minimum contribution is being paid.

Qualifying Earnings

The minimum contributions for auto-enrolment can be based on a band of qualifying earnings.

The qualifying earnings band is currently between £6,240 and £50,270 a year (2024/2025). These thresholds are reviewed by the Government every year.

Basic salary, commission, bonuses and overtime plus statutory maternity, paternity, adoption and sickness pay must all count towards qualifying earnings.

Example

For someone with earnings of £16,000 a year, your pension contributions would be calculated as a percentage of the difference between £6,240 and £16,000 which is £9,760.

The above is the legal minimum; employers don't have to base contributions on this band of earnings. Usdaw prefers employers to pay contributions from the first £1 of pay because it helps workers build a bigger pension pot.

Again, employers can choose to apply contributions to a more generous definition of earnings if they wish, for example they could choose Basic Earnings or all of earnings (P60).

Testing Contributions

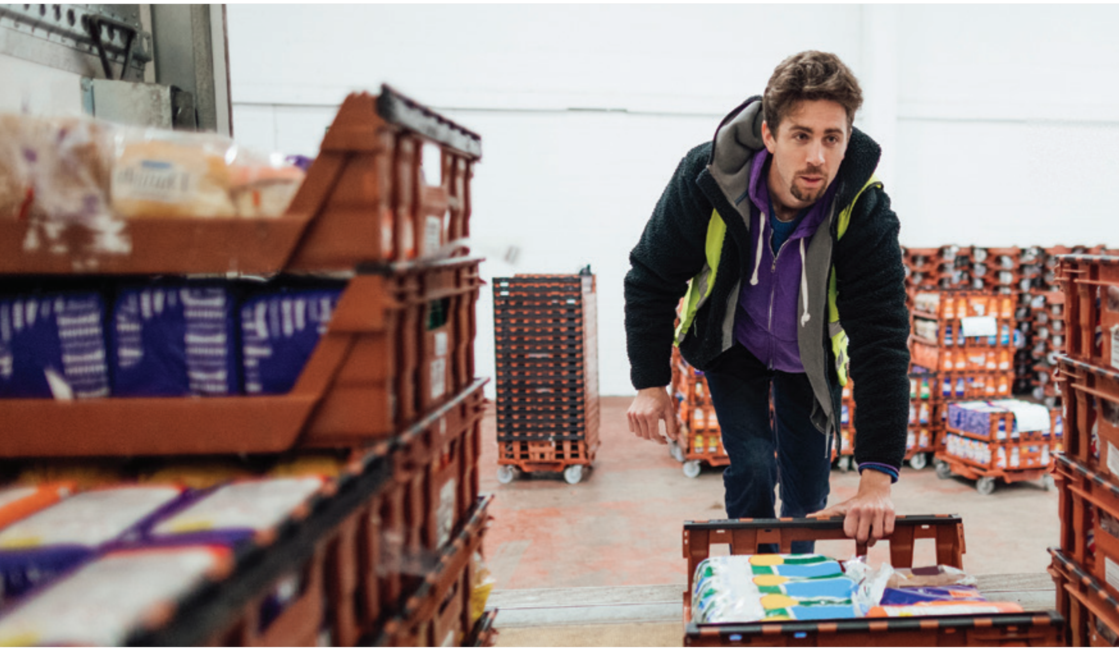
Every year, employers must check that contributions are meeting the minimum levels. They must make up any shortfalls if they have not.

If members want to check for themselves that their employer is paying the minimum contributions then they should contact the Usdaw's Pensions Team on **0161 224 2804**.

Are the New Minimum Contributions Good Enough?

No. Usdaw's view is that to achieve a decent pension pot at retirement, a total pension contribution of 15% is needed with 5% paid by the employee and 10% from the employer, over a working lifetime.

The minimum contributions were initially set very low, rising to a total of just 8% with only 3% having to come from the employer by April 2019.



Usdaw believes that pensions contributions should be based on the first £1 of earnings rather than just on a portion of someone's earnings.

Although the minimum contributions are low, auto-enrolment will give millions of workers the opportunity to save for retirement in a workplace pension scheme for the first time.

Most of the companies where Usdaw members work already offer a scheme with an employer contribution better than the new minimum.

Our main concern is that with thousands more workers joining a scheme for the first time, some employers might try to limit the cost of auto-enrolment by making their existing schemes less generous.

Summary

- **The total minimum pension contribution – for both employer and employee – rose to 8% of wages in April 2019.**
- **A minimum 3% must be paid by your employer.**
- **Employee contributions receive tax relief from the Government which means that every £1 you pay in only costs you 80 pence.**
- **As a minimum, contributions only need to be deducted from a band of earnings currently between £6,240 and £50,270 a year.**
- **Basic pay, commission, bonus, overtime, statutory maternity, paternity, adoption and sickness pay must all be counted towards qualifying earnings.**
- **Employers have to declare that they have paid the compulsory minimum contributions every year.**

Things To Watch Out For

Levelling Down

Some employers are trying to keep costs down by reducing the contributions they pay to existing schemes down to the new minimum levels. This is called 'levelling down'.

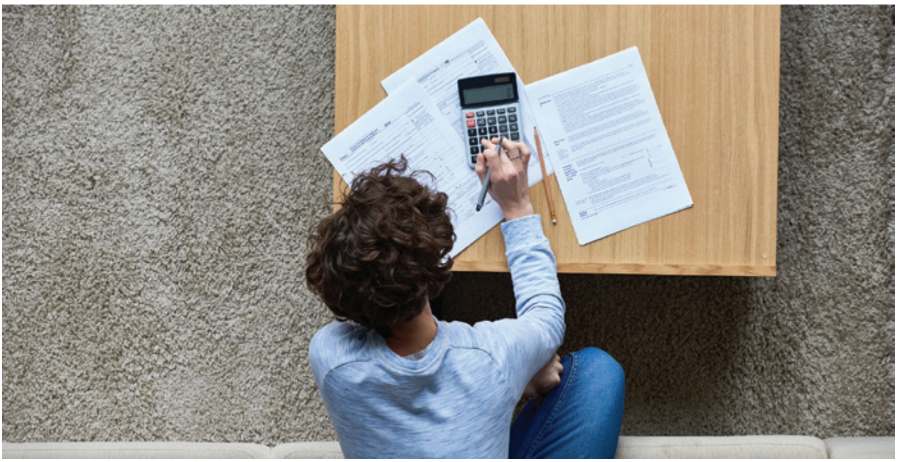
Employers must consult with employees and Usdaw for at least 60 days if they propose to reduce contributions to a scheme.

If your employer proposes levelling down contributions to your pension scheme then contact your Area Organiser at your local Usdaw office as soon as possible.

Offering Incentives to Opt Out

Another possibility is for employers to cut costs by offering employees incentives to opt out. Ways they could do this include:

- Awarding pay rises to employees who opt out but not to those who do not.
- Offering overtime for people who opt out but not for those who do not.
- Selecting people who have opted out for recruitment or promotion above people who do not.



There are rules to prevent employers from offering incentives to opt out. Any employer who breaks the rules can be fined by the Pensions Regulator.

Usdaw is confident that the majority of employers are complying with the new rules, but it is essential that our reps and members keep an eye out for any practices which you suspect might be being used as a way to encourage workers to opt out.

Contact your Area Organiser at your local Usdaw office if you think your employer is acting in a way that encourages members to opt out.

Penalties for Non-Compliance

It is the responsibility of the Pensions Regulator to issue compliance notices, penalty notices and fines to any employers that do not comply with the new rules. Employers may face penalties for any of the following:

- Failing to make contributions.
- Failing to enrol or re-enrol qualifying employees.
- Giving employees incentives to encourage them to opt out.
- Recruiting new employees on the understanding that they will opt out.

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Summary

- Employers may look to reduce the cost of auto-enrolment by making their existing pension schemes less generous – levelling down.
- Strict rules are in place to try and prevent employers from offering employees incentives to opt out of auto-enrolment.
- Employers who fail to comply with auto-enrolment rules can be fined by the Pensions Regulator.

Which Schemes Can Be Used For Auto-Enrolment?

Existing Workplace Schemes

Most of the larger companies which Usdaw members work for already had a pension scheme that they have adapted for auto-enrolment. As long as the existing scheme meets certain minimum standards it can be used as a 'Qualifying Scheme'.

New Workplace Schemes

All new companies will now have to set up a new Qualifying Scheme with an insurance company or they could join a multi-employer scheme.

Multi-Employer Schemes

Since the introduction of auto-enrolment, many schemes have been set up under a Master Trust.

A Master Trust is a multi-employer occupational pension scheme where each employer has its own section within the master arrangement.

There is one legal trust and therefore one trustee board.

The trustee board makes decisions for each section on things such as investment funds and service providers under a trust-wide governance structure.

The decisions about benefit and contribution levels, however, are generally made by the employer.

Some examples of multi-employer schemes which have a Master Trust structure include The People's Pension, Now Pensions and NEST (which is the Government-backed scheme).

Summary

- **Most companies where Usdaw members are employed will already have had an existing pension arrangement which qualified for auto-enrolment.**
- **If employers have used an existing pension scheme for auto-enrolment it must meet minimum standards set by the Government.**
- **Some smaller and medium sized companies may use a multi-employer scheme for auto-enrolment such as NEST, which is a Defined Contribution Government-backed scheme.**

The Story So Far

Has Auto-Enrolment Been a Success?

Auto-enrolment has proved more successful than many had anticipated.

The success of auto-enrolment is generally being measured by how many people opt out of their workplace pension after being auto-enrolled.

As things stand the opt out rate is very low; around 10%. This is a fantastic result and has surprised many people in the pensions industry.

Prior to the introduction of auto-enrolment many surveys were carried out and it was anticipated that at least 30% of individuals would take the decision to opt out (which is interesting in that people are not doing what they said they would do) prior to the introduction of the pension reforms.

It has recently been reported in the press that as many as ten million people have been enrolled since the reforms were introduced in 2012.

Why Has it Been A Success?

There are a number of reasons as to why the reforms have so far proved successful:

- **Inertia** – At least 90% of people have remained in their workplace pension scheme once they have been auto-enrolled. The pension industry believes this is partly down to 'inertia', which means that people just haven't got around to opting out and have got used to contributing.
- **Low contributions** – Statutory minimum contributions were originally set at just 2% (1% from the employee plus 1% from the employer), so people did not really miss this money being deducted from their salary because the contribution level was so low.

In April 2019 contributions increased to a total minimum of 8% (5% from the employee and 3% from the employer) and the opt out rates have surprisingly remained the same.

What Does the Future Hold?

There is a general concern that the small and medium sized employers will not have the same amount of engagement with auto-enrolment due to the lack of resources and money available, compared with the larger companies.

As a result the opt out rate could increase; but this remains to be seen.

Companies must comply with auto-enrolment – it is the law and those who do not comply with their legal duties will face large fines from the Pensions Regulator.

Auto-enrolment is a rolling programme so anyone who opts out must be re-enrolled every three years if they continue to meet the eligibility criteria.

You and your colleagues will need to be aware of this.

In April 2019 the statutory minimum contributions increased again:

Date	Employer must pay	Employee	Total
April 2019 onwards.	3%	5%	8%

Employers can choose to pay higher contributions than the statutory amounts if they want to and the contributions do not have to be split in this way as long as the total minimum contribution is being paid.

Usdaw Believes That More Still Needs to be Done.

Usdaw believes auto-enrolment should be viewed as "work in progress". We have been lobbying Government to reduce the age limit from 22 to 18 in order to include young people when they first start work. Furthermore, we believe the earnings limit of £10,000 should be removed to enable everyone to contribute from their first pound of pay, resulting in higher contributions being invested in our pension pots.

If you are a rep and would like to run a Pension Awareness Day Campaign in order to help our members understand more about their pensions, please contact the Pensions Team on **0161 224 2804** or email **pensions@usdaw.org.uk** for more information.

Reps' Action Plan

Saving for retirement is a big issue for Usdaw members. State retirement benefits alone will not guarantee us a decent standard of living in retirement.

Whether or not we think we can afford to save for a pension, one thing is certain: doing nothing is not an option. That is why Usdaw supports auto-enrolment.

Our reps can help us by:

- Giving members the facts about auto-enrolment and telling them why Usdaw supports it.
- Encouraging members to take full advantage of their pension rights by not opting out of auto-enrolment.
- Helping people to understand the importance of saving for retirement.
- Helping our members to manage their expectations. Contributions increased to 8% in April 2019, but Usdaw's view is that 15% of earnings are still needed to achieve a decent income in retirement.
- Making sure that employers are meeting their new auto-enrolment obligations.
- Keeping an eye out for attempts by employers to level down existing pension schemes or offer incentives for workers to opt out.

Three Steps to Support Auto-Enrolment

1. **Start your own Pensions Awareness Campaign.**

   Reps can start their own pensions awareness campaign to spread the basic information about pensions and auto-enrolment at work. A Pensions Awareness Campaign is easy to organise and you do not have to be a pensions expert to organise one. Just concentrate on giving people the basic facts about pensions and auto-enrolment so they can then make an informed decision about what is right for them.

   A straightforward campaign involves:

   – Setting up a stall or designated area in the staff room or canteen.

   – Getting copies of this guide to share with other members.

   – Making Usdaw's other pensions guides and factsheets available.

   – Giving members the basic facts about their own company pension scheme.

   – Encouraging members to sign up for our new online Pensions Home Study Course.

   Contact Usdaw's Pensions Section on **0161 224 2804** or email **pensions@usdaw.org.uk** for more information.

2. **Sign up for Usdaw's online Pensions Home Study Course.**

   Sign up Usdaw members to do the new online Pensions Home Study Course and refresh your own knowledge by signing up yourself.

   The course has been newly updated to include the facts about auto-enrolment and your pension rights at work. It is free for Usdaw members and helps you to understand the basic facts about your own pension, what you are entitled to and how to help others with their own pension questions.

   There are four separate modules you can sign up to which explain workplace pension schemes and the State Pension.

   Contact Usdaw's Pensions Team on **0161 224 2804** or sign up online at: **www.usdaw.org.uk/homestudy**

3. **Watch out for signs that employers aren't complying with the new rules.**

   Contact your Area Organiser at your local Usdaw office if:

   — Your employer is proposing to change the existing pension scheme.

   — Offering incentives to workers to opt out of auto-enrolment.

   — Failing to comply with the new rules in any other way.

Summary

- **Reps will play a vital role in giving our members the facts about auto-enrolment and encouraging them to take advantage of their pension rights by not opting out.**
- **Reps will be our eyes and ears in the workplace to make sure that employers are complying with the rules.**
- **It is easy to organise a pensions awareness campaign at work as a way of giving members the facts about pensions and auto-enrolment.**
- **Sign up for our online Pensions Home Study Course and encourage other Usdaw members to do the same.**

Notes

More Information

Do You Have A Question About Your Pension?

Submit your question online at:
www.usdaw.org.uk/PensionsQ

Scan the QR code to ask a question.

Usdaw Nationwide

Wherever you work, an Usdaw rep or official (Area Organiser) is not far away. For further information or assistance, contact your Usdaw rep or local Usdaw office. Alternatively you can phone our Freephone Helpline **0800 030 80 30** to connect you to your regional office or visit our website: **www.usdaw.org.uk**
You can also write to the Union's Head Office. Just write **FREEPOST USDAW** on the envelope and put it in the post.

Join Usdaw

You can join online at:
www.usdaw.org.uk/join

Scan the QR code to join today.

What Happens Next

Once we process your application, you will receive a membership card with our Helpline telephone number and a New Member's Pack giving details of all the benefits and professional services available to you.

PS AE Guide April 2024
Stock photography, posed by models

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