Q&A FOR EMPLOYEES

SimpleAE

Automatic Enrolment made easy

Introduction

You have probably seen the government's 'I'm in' campaign about workplace pensions and auto enrolment. The good news is – it's about to be your turn. This Q&A is designed to tell you about pensions and auto enrolment and what it means to you.

What is a pension?

A pension is a very tax-efficient way to save for your retirement. You get tax relief at your highest marginal rate on the money you save, most of the returns you get are paid free of income and capital gains tax, and you can get a tax free lump sum of up to 25% of the value of your pot when you retire.

The money you save is locked away until you are at least 55 (unless you are diagnosed with a terminal illness) and the way it is invested is designed to give you a sum of money you can use to fund your retirement.

Why do I need a pension?

For 2015/16, the basic state pension is £115.95* per week. If you currently earn more than that, it means your income will drop when you retire. For many people, there will be a big difference between the money you take home now and the income you will have in retirement. Saving some of the money you earn now into a pension will provide you with an additional income when you retire.

*Source: HM Treasury

What is auto enrolment?

By law, every employer has to automatically enrol most of their employees into a pension scheme. For example, employers staging in 2015/16 will have to automatically enrol anyone aged between 22 and State Pension age who earns more than £10,000 per year (the equivalent of £833 per month or £192 per week) into a workplace pension. If you are auto enrolled, you do not have to do anything and you will automatically start making contributions to it straight from your pay packet.

Will I be automatically enrolled into a pension?

The government has created three categories of workers with different rights. These categories are: eligible jobholder, non-eligible jobholder and entitled worker. Many people will be 'eligible jobholders' which means they are aged between 22 and State Pension age and earn more than £10,000. All 'eligible jobholders' will be automatically enrolled into the pension scheme. We will write to you shortly to tell you which category you are in and what it means for you. Even if you are not automatically enrolled you can still join the pension if you want to, as long as you are under age 74.

By law, every employer will have to automatically enrol most of their employees into a pension scheme from a given date.

What happens if I am automatically enrolled?

If you are automatically enrolled, your employer will start to take contributions from your salary and will also make contributions on your behalf. Both the employer and employee contributions will be paid into a pension scheme on your behalf. We will write to you before this happens to tell you when the contributions will start. The contributions payable are shown in the table below.

The contributions will be calculated on what is known as 'Qualifying Earnings'. For 2015/16 this is all earnings between £5,824 and £42,385 (or £486 and £3,532 a month, or £112 and £816 a week) pro rated per pay period. You will receive tax relief on the contributions you make at your highest marginal rate because they are deducted from your pre-tax pay.

Period	Member pays	Employer pays	Total
To 30 September 2017	1%	1%	2%
To 30 September 2018	3%	2%	5%
1 October 2018 onwards	5%	3%	8%

I can't afford to pay into a pension
what should I do?

If you can't afford to join the scheme now, you can opt out within 30 days of receiving your assessment letter and any contributions you have paid will be refunded. Your employer has to re-enrol any Eligible Jobholders who opt out on a specific date every three years so if you opt out now you will be automatically enrolled again later.

If you decide to leave the pension scheme more than 30 days after receiving your assessment letter, you can do so. Any pension contributions that have been paid will remain invested in your own pension pot until you retire.

Are there any tax implications?

Pensions are very tax efficient but very high earners and people who already have very large pension pots may wish to seek professional tax advice because there are rules limiting the amount of contributions on which you can receive tax relief and the amount you can accumulate tax-free.

Can I increase my contributions?

You can increase your contributions by opting to pay a higher percentage of Qualifying Earnings. If you can afford to do so, you should consider doing this because the more you pay into your pension pot, the more income you will get in retirement.

If you pay higher rate tax, you could consider increasing your contributions because the 'Qualifying Earnings' basis used for this pension scheme means that contributions are only made on earnings between £5,824 and £42,385. This means that some of your earnings will not count when your pension contributions are calculated. You can top this up by making extra voluntary contributions.

About the scheme

What is the pension scheme?

Your employer has chosen the Creative Pension Trust, which is a Master Trust that invests the contributions you and your employer make into Scottish Widows funds. Scottish Widows, one of the UK's most trusted life, pensions and investments brands.* You will get full details about the scheme when you join it.

What will my pension be worth when I retire?

The amount you get will depend on how much you contribute, how well your investments perform, and how you choose to use your pension pot to give you an income. The most important factor is the amount you contribute so if you can afford to pay more, you should consider doing so.

How are the pension contributions invested?

All pension contributions will ordinarily be invested into the 'default fund'. This fund has been designed to be suitable for most people. It is designed to take a balanced amount of risk in the early years, because usually more risk means better returns over the long term. When you reach 50, your investments will be moved into a 'lifestyling' approach. This means that the amount of risk in your pension investments gradually reduces to give you more certainty about the amount you will have to fund your retirement.

The lifestyling approach assumes you will want to retire at age 65. We will write to you before we start changing the way your pension is invested to make sure this is still right for you. You can opt out of lifestyling by choosing your own funds.

*More consumers see Scottish Widows as a brand that 'can be completely trusted with your money' than any other major LP&I brand in the UK. Source: IPSOS brand tracking 2012 data is based on 3,287 ABC1 consumers responsible for household financial decisions.'

Can I choose how my pension is invested?

The default fund is designed to be suitable for the majority of scheme members. If you prefer to choose your own investment strategy, four funds are available for you to select from or combine to make your preferred asset allocation. If you choose to do this, you will have control of your own investments which means your pension pot will not be invested in a fund with a lifestyling approach to reduce risk as you near retirement.

What will I be charged?

The charges you pay are capped by the government and cover the costs of running the scheme.
The amount of charges collected depends on whether you are paying into the scheme (an 'active' member) or whether you have stopped paying into the scheme (a 'deferred' member) and how much you earn. The charges are made up of two elements, an annual management charge of 0.4% plus a monthly charge as detailed in the table below:

	Qualifying earnings* above £12,228 pa	Qualifying earnings* below £12,228 pa		
		Until 30/09/2017	From 01/10/2017	From 01/10/2018
Active Member	**£2.00**	**£0.60**	**£1.20**	**£2.00**
Deferred Member	**£1.20**	**£0.60**	**£1.20**	**£1.20**

*Qualifying Earnings is made up of salary, wages, commission, overtime, bonuses, sick payand parental pay between £5,824 and £42,385 per year, or £486 and £3,532 a month, or £112 and £816 a week for the

I already have a pension

Can I combine them?

You can transfer an existing pension pot into the Creative Pension Trust, although you will usually need to get professional advice before doing so; transfers from pension schemes that include any contracted out benefits are not permitted. You can't ask your employer to make contributions into another scheme, only this one.

What happens next?

You will receive an email or letter telling you when auto enrolment will start for your employer. A few weeks later, you will get another email or letter telling you whether you have been automatically enrolled. You can then decide whether you want to be part of the scheme or not.
If you have any questions about anything to do with your new workplace pension, you can call the employee helpdesk on 0845 475 1071.