



## AUTO ENROLMENT CONTRIBUTIONS DECISION TREE

This decision tree will help you consider the contribution options for an existing pension scheme that meets the auto enrolment requirements. It's based on our current understanding of the relevant legislation and regulations (including drafts) which could change in the future. It uses the current definition of pensionable salary as the starting point to help you decide:

- the level of employer and employee contributions;
- how to phase contributions - if you're using this option.

There are also examples to help bring the options to life.

### HOW TO USE IT

1. You'll need to gather the following information about the existing pension scheme:
  - What's included in pensionable salary
  - The total annual pensionable salary
  - The total annual non-pensionable salary
  - The current level of employer and employee contributions
  - Current eligibility to join the scheme
  - Employer's objectives for the scheme
2. If you're looking at different contribution rates for different segments of the workforce, you'll need to gather this information for each segment.
3. Once you've decided on the contributions, complete the **Design decision document** to let us know the decision.

### FOR MORE SUPPORT

Visit the auto enrolment area of our website for a range of support material:

Advisers – [adviser.royallondon.com/autoenrolment](https://adviser.royallondon.com/autoenrolment).

Employers – [employer.royallondon.com/autoenrolment](https://employer.royallondon.com/autoenrolment).

- Our contributions options video will help you understand the requirements and the options available.
- Our auto enrolment support team are on hand to answer any questions you have.



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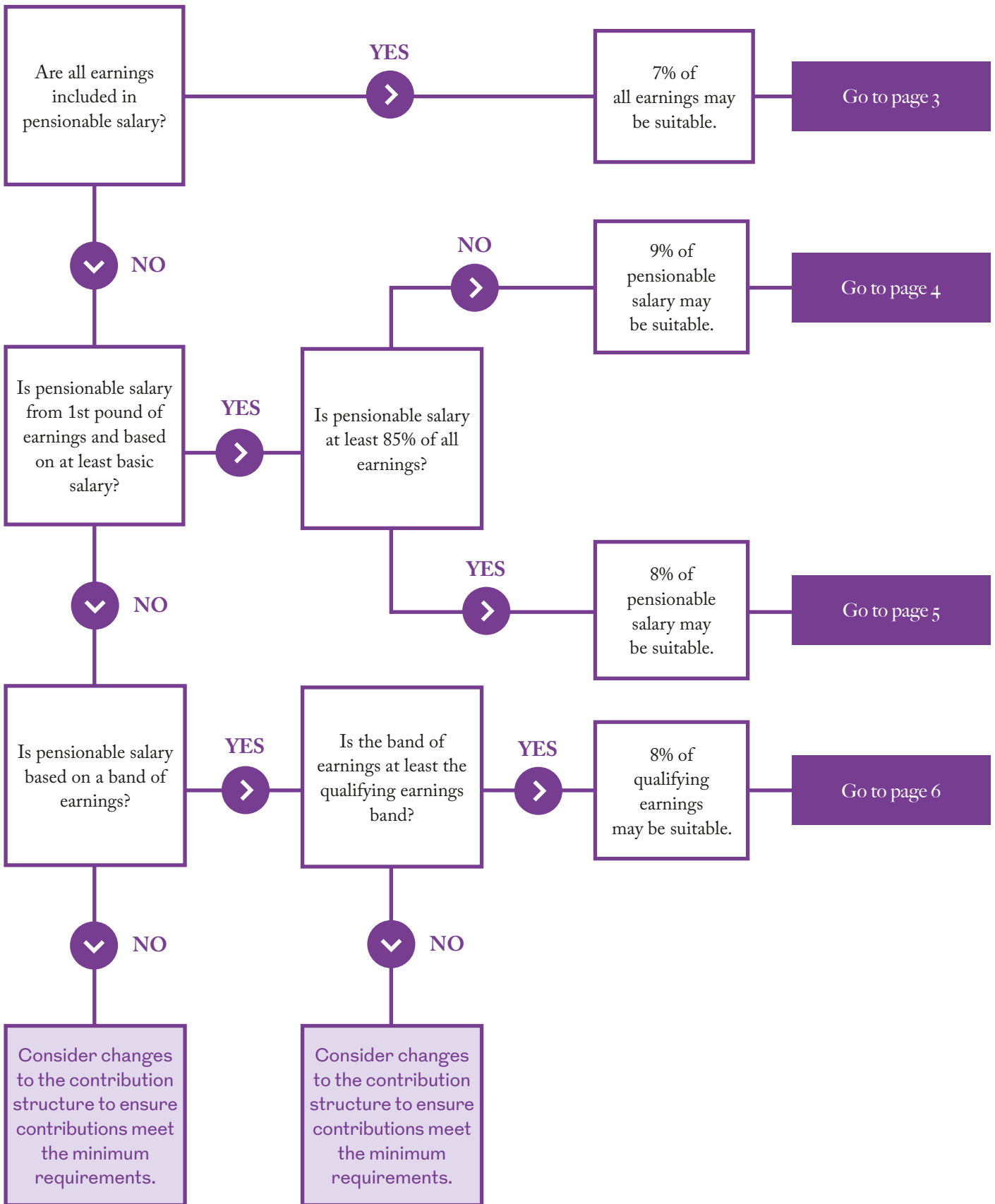


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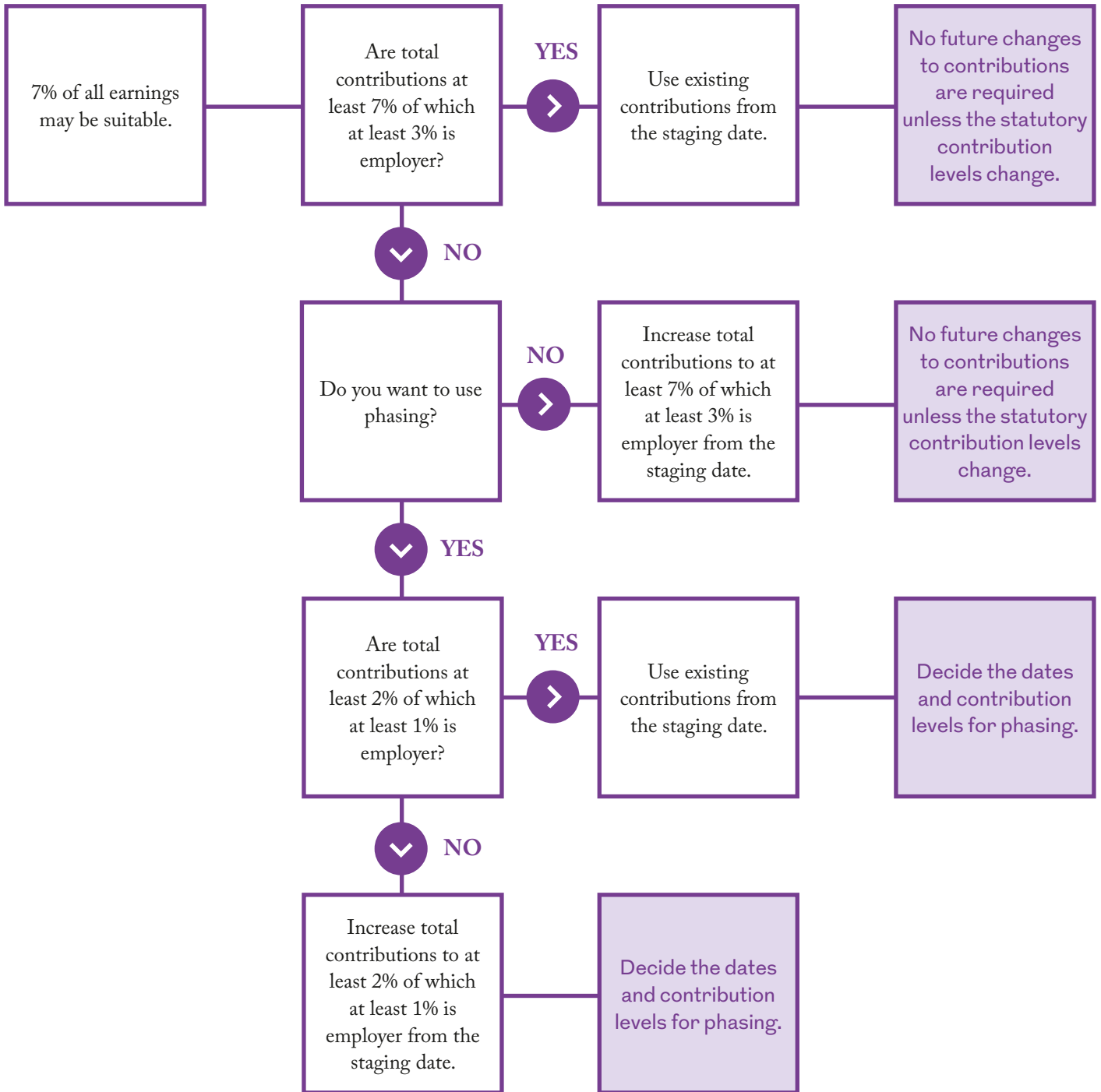


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# INTRODUCTORY DECISION TREE



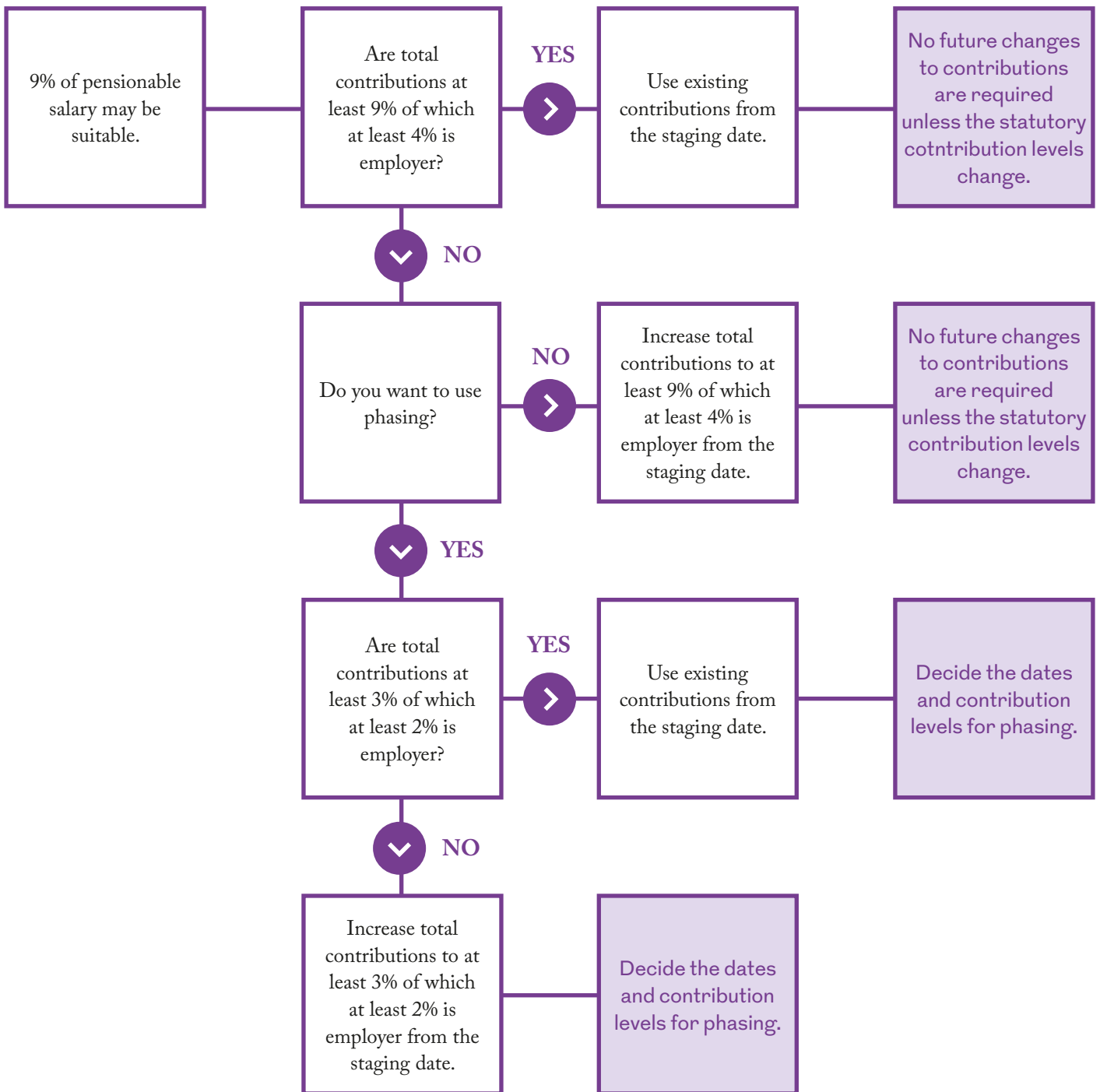
# 7% OF ALL EARNINGS DECISION TREE



## Statutory dates and minimum contribution levels for phasing

Date	Total must be at least	Employer must contribute
Staging date to 5 April 2018	2%	1%
6 April 2018 to 5 April 2019	5%	2%
6 April 2019 onwards	7%	3%

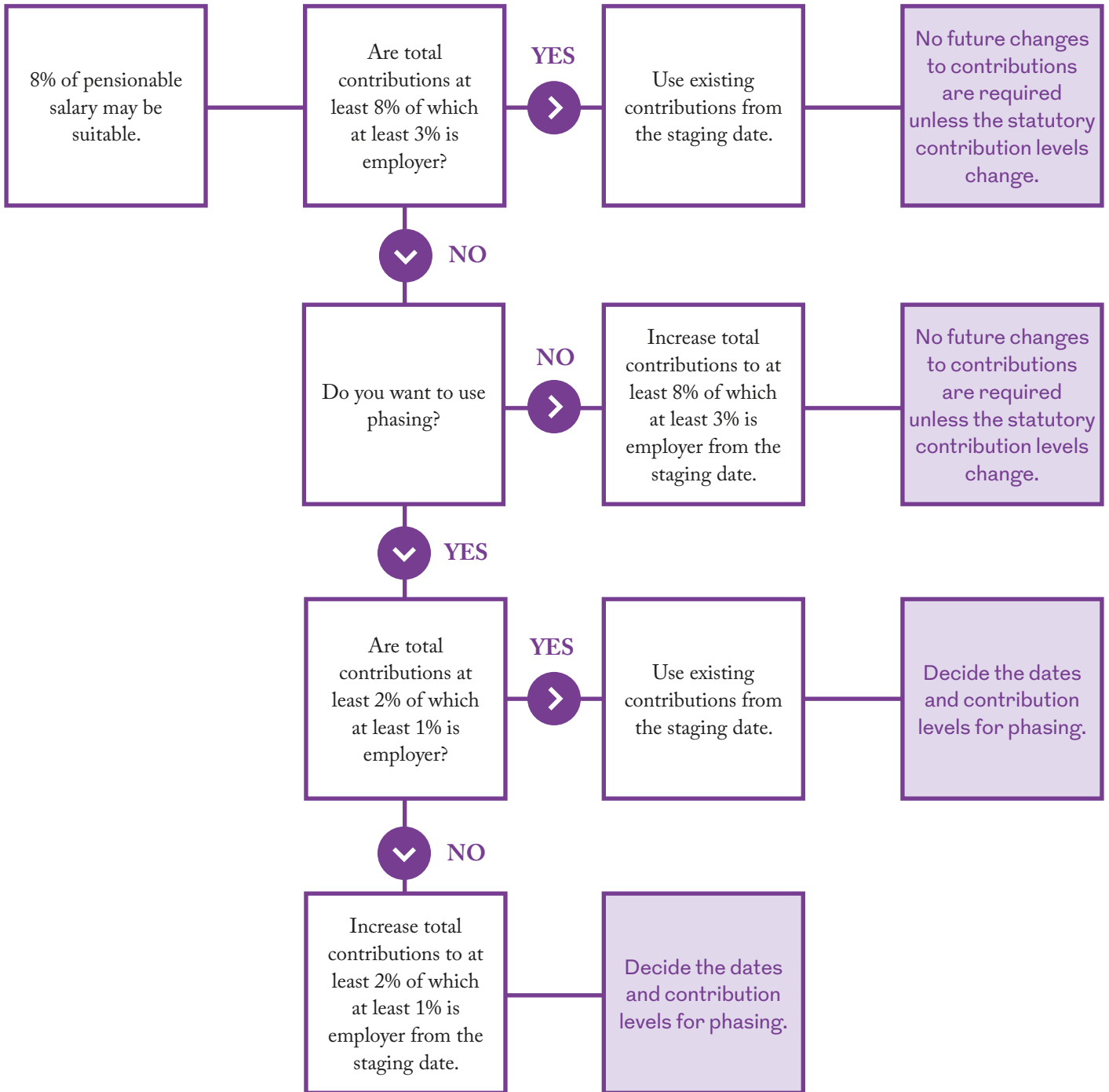
# 9% OF PENSIONABLE SALARY DECISION TREE



## Statutory dates and minimum contribution levels for phasing

Date	Total must be at least	Employer must contribute
Staging date to 5 April 2018	3%	2%
6 April 2018 to 5 April 2019	6%	3%
6 April 2019 onwards	9%	4%

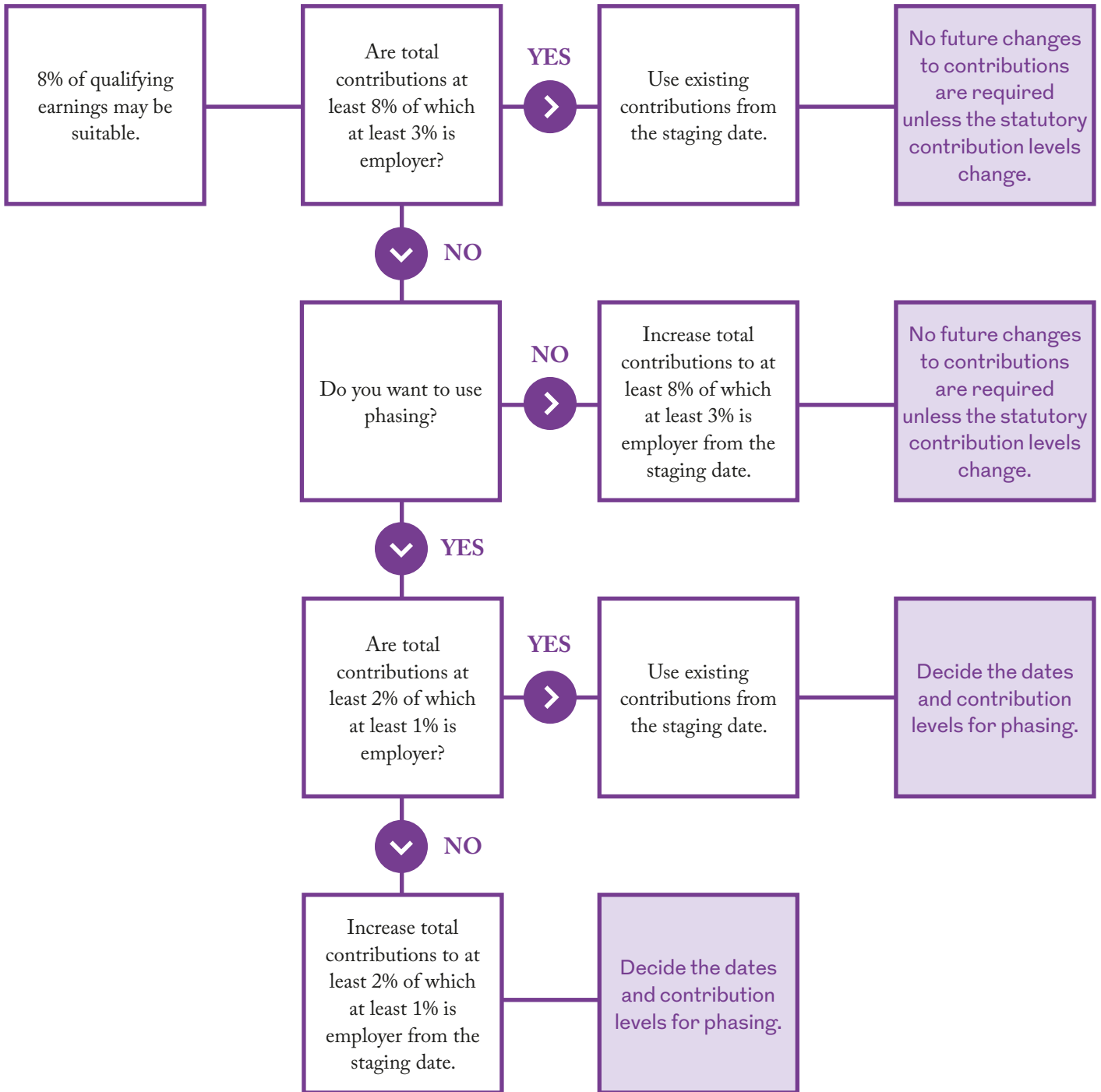
# 8% OF PENSIONABLE SALARY DECISION TREE



## Statutory dates and minimum contribution levels for phasing

Date	Total must be at least	Employer must contribute
Staging date to 5 April 2018	2%	1%
6 April 2018 to 5 April 2019	5%	2%
6 April 2019 onwards	8%	3%

# 8% OF QUALIFYING EARNINGS DECISION TREE



## Statutory dates and minimum contribution levels for phasing

Date	Total must be at least	Employer must contribute
Staging date to 5 April 2018	2%	1%
6 April 2018 to 5 April 2019	5%	2%
6 April 2019 onwards	8%	3%

## EXAMPLES

The following examples:

- illustrate the needs of three different clients with existing pension schemes
- demonstrate how you can use the decision trees to help decide the most suitable option(s).

### Employer 1

#### Information gathered about the existing scheme

What's included in pensionable salary?	<ul style="list-style-type: none"> <li>• Basic salary.</li> <li>• Low overtime and bonus not included.</li> </ul>
Total annual pensionable salary	£375,000
Total annual non-pensionable salary	£15,000
Current contribution rates	Employer contribution = 3% Employee contribution = 3%
Current eligibility to join the scheme	All employees
Employer's objectives for the scheme	<ul style="list-style-type: none"> <li>• Make all changes quickly from the staging date.</li> <li>• Continue to match employee contributions.</li> </ul>

#### Decision tree results

Are all earnings included in pensionable salary?	N
Is pensionable salary from 1st pound of earnings and based on at least basic salary?	Y
Is pensionable salary at least 85% of all earnings?	Y Overtime and bonuses not included, but low.
<b>8% of pensionable salary may be suitable.</b>	
Are total contributions at least 8% of which at least 3% is employer?	N
Do you want to use phasing?	N Make all changes quickly from the staging date.
<b>Increase total contributions to at least 8% of which at least 3% is employer from the staging date.</b>	
<b>No future changes to contributions are required unless the statutory contribution levels change.</b>	

## Decisions made

<b>Pensionable salary</b>	As before <ul style="list-style-type: none"><li>• Basic salary</li><li>• Low overtime and bonus not included</li></ul>
<b>Contribution basis</b>	8% of pensionable salary
<b>Phasing of contributions</b>	None
<b>Employer contributions from the staging date</b>	4% of pensionable salary
<b>Employee contributions from the staging date</b>	4% of pensionable salary
<b>Eligibility</b>	As before - All employees.

## KEY POINTS

1. The employer can make all changes quickly from the staging date because:
  - a. they're not phasing contributions;
  - b. they can use pensionable salary;
  - c. the process, payroll system and communications only need to be changed once.
2. The employer can continue to match employee contributions by increasing both employee and employer contributions to 4% to meet the requirements.
3. The employer might have to conduct a consultation exercise with employees before the staging date as their contributions will be increasing.





## Employer 2

### Information gathered about the existing scheme

What's included in pensionable salary?	All earnings
Total annual pensionable salary	£250,000
Total annual non-pensionable salary	£0
Current eligibility to join the scheme	All employees
Current contribution rates	Employer contribution = 2% Employee contribution = 2%
Employer's objectives for the scheme	<ul style="list-style-type: none"><li>• Minimise the cost of making the changes.</li><li>• Continue to make it available to all employees.</li></ul>

### Decision tree results

Are all earnings included in pensionable salary?	Y
<b>7% of all earnings may be suitable.</b>	
Are total contributions at least 7% of which at least 3% is employer?	N
Do you want to use phasing?	Y To minimise the cost.
Are total contributions at least 2% of which at least 1% is employer?	Y
<b>Use existing contributions from the staging date.</b>	
<b>Decide the dates and contribution levels for phasing.</b>	

## Decisions made

<b>Pensionable salary</b>	As before - All earnings
<b>Contribution basis</b>	7% of all earnings
<b>Phasing of contributions</b>	Yes
<b>Eligibility</b>	As before - All employees.

<b>Contributions</b>			
<b>Date</b>	<b>Total must be at least</b>	<b>Employer contributions</b>	<b>Employee contributions</b>
Staging date to 5 April 2018	2%	2%	2%
6 April 2018 to 5 April 2019	5%	2%	3%
6 April 2019 onwards	7%	3%	4%

## KEY POINTS

1. The employer can minimise the cost of making the changes because:
  - a. there's no change to pensionable salary;
  - b. phasing allows them to increase the contributions over time;
  - c. phasing can start at the current contribution level, as this is higher than the minimum.
2. The client can continue to make the scheme available to all employees with minimal changes to meet the requirements.
3. The employer might have to conduct a consultation exercise with employees as their contributions will be increasing in 2018 and 2019.

### Employer 3

#### Information gathered about the existing scheme

##### Existing scheme for managers

What's included in pensionable salary?	<ul style="list-style-type: none"><li>• Basic salary</li><li>• High overtime and bonus not included</li></ul>
Total annual pensionable salary	£250,000
Total annual non-pensionable salary	£120,000
Current contribution level	Employer contribution = 5% Employee contribution = 5%
Current eligibility to join the scheme	Managers only
Employer's objectives for the scheme	For managers, make the current contributions to the existing scheme.

##### Non-managers – no existing scheme

What's included in pensionable salary (based on using existing managers' scheme)	<ul style="list-style-type: none"><li>• Basic salary</li><li>• High overtime not included</li></ul>
Total annual pensionable salary	£400,000
Total annual non-pensionable salary	£80,000
Current contribution level	None
Current eligibility to join the scheme	Managers only
Employer's objectives for the scheme	For non-managers, make the minimum contributions to the existing scheme.



## Decision tree results

### 1. Existing scheme for managers

Are all earnings included in pensionable salary?	N
Is pensionable salary from 1st pound of earnings and based on at least basic salary?	Y
Is pensionable salary at least 85% of all earnings?	N
<b>9% of pensionable salary may be suitable.</b>	
Are total contributions at least 9% of which at least 4% is employer?	N
<b>Use existing contributions from the staging date.</b>	
<b>No future changes to contributions are required unless the statutory contribution levels change.</b>	

### 2. Existing scheme with minimum contributions for non-managers:

Are all earnings included in pensionable salary?	N
Is pensionable salary from 1st pound of earnings and based on at least basic salary?	Y
Is pensionable salary at least 85% of all earnings?	N
<b>9% of pensionable salary may be suitable.</b>	
Are total contributions at least 9% of which at least 4% is employer?	N
Do you want to use phasing?	Y To make the minimum contributions.
Are total contributions at least 3% of which at least 2% is employer?	N
<b>Increase total contributions to at least 3% of which at least 2% is employer from the staging date.</b>	
<b>Decide the dates and contribution levels for phasing.</b>	

## Decisions made

### Use the existing scheme with 2 tiers of contribution

#### Managers

Pensionable salary	As before <ul style="list-style-type: none"><li>• Basic salary</li><li>• High overtime and bonus not included</li></ul>
Contribution basis	9% of pensionable salary
Phasing of contributions	None
Employer contributions	5% of pensionable salary
Employee contributions	5% of pensionable salary
Eligibility	Managers

#### Non-managers

Pensionable salary	<ul style="list-style-type: none"><li>• Basic salary</li><li>• High overtime not included</li></ul>
Contribution basis	9% of pensionable salary
Phasing of contributions	Yes
Eligibility	Non-managers

Contributions			
Date	Total must be at least	Employer contributions	Employee contributions
Staging date to 5 April 2018	3%	2%	1%
6 April 2018 to 5 April 2019	6%	3%	3%
6 April 2019 onwards	9%	4%	5%

## KEY POINTS

The employer can:

1. Continue to make higher contributions for managers, as they exceed the minimum requirements.
2. Make the minimum contributions for non-managers by phasing in the minimum contributions in over time.

## KEY TERMS EXPLAINED

### Qualifying earnings

Qualifying earnings is the band of earnings between £5,876 and £45,000 for the tax year 2017/18. This is expected to change each year. Qualifying earnings must include:

- Salary
- Wages
- Overtime
- Bonuses
- Commission
- Statutory maternity, paternity, adoption and sick pay.

### Pensionable salary

Pensionable salary is the pay that is used to work out pension contributions. This can vary from scheme to scheme. It must include at least basic pay, but can also include other elements of pay.

Basic pay must include earnings before deductions, holiday pay and certain statutory benefits delivered through payroll.

Total pay includes basic pay plus overtime, bonuses, commission, allowances and certain statutory benefits.

These definitions are not exhaustive. Employers that have other types of pay may need to take legal advice.

### Phasing

Phasing of contributions allows employers and employees to build up contributions gradually from the staging date to April 2019.

As long as the contributions meet the minimums at the dates set by the Government:

- the contribution levels can be higher
- the employer can decide when to change the contribution levels to align the phasing date with other key company dates, such as the scheme's yearly review date.

For more information see the phasing table below and the 'Phasing of contributions factsheet' at [adviser.royallondon.com/autoenrolment](http://royallondon.com/autoenrolment).

### Staging date

The date the employer duties first apply for each employer is known as the 'staging date'. It's based on the number of people in the largest Pay As You Earn (PAYE) scheme on 1 April 2012. Any changes to the size of the workforce after 1 April 2012 won't affect the staging date.

### Phasing table

	7% of all earnings <sup>1</sup>		8% of pensionable salary provided 85% of total payroll is pensionable <sup>1</sup>		9% of pensionable salary		8% of qualifying earnings	
	Total must be	Employer must contribute	Total must be	Employer must contribute	Total must be	Employer must contribute	Total must be	Employer must contribute
Staging date to 5 April 2018	2%	1%	2%	1%	3%	2%	2%	1%
6 April 2018 to 5 April 2019	5%	2%	5%	2%	6%	3%	5%	2%
6 April 2019 onwards	7%	3%	8%	3%	9%	4%	8%	3%

<sup>1</sup> Earnings must include everything that's included in the definition of qualifying earnings.





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