

Pension auto-enrolment for umbrella company contractors explained

Contractors working as employees of an **umbrella company** or professional employment organisation will be automatically enrolled into a pension scheme when they join if their service provider is beyond the start date for implementing pensions auto-enrolment, called its **staging date**, and they meet certain criteria.

The largest companies are already auto-enrolling their contractors, but the smallest don't have to do so until October 2014 and beyond. Workers will be auto-enrolled whether or not they already have a personal pension plan, but can choose to opt out.

"Contractors can choose to remain in their umbrella company's pension scheme and benefit from their employer's contribution," explains Derek Kelly, managing director of professional employment organisation **Parasol**. "Alternatively, they can choose to opt out and manage their own pension arrangements. But contractors cannot opt out until they have actually been auto-enrolled."

Once auto-enrolled, the employer will automatically make a **minimum employer contribution** to the contractor's pension fund based on the contractor employee's earnings, alongside the contractor's contribution. The exact amount is determined by the legislation and starts at 2%, of which a minimum of 1% must be paid by the employer. The amounts increase over time.

Auto-enrolment - the process

Contractors must be assessed as an 'eligible jobholder' in order to be auto-enrolled. To **be eligible**, a contractor must:

Be aged between 22 and **state pension age**

Work in the UK

Have gross earnings in excess of £10,000 in a year.

According to these criteria, the vast majority of contractors will qualify.

Each time an umbrella contractor joins a new umbrella company employer and meets the above criteria, they will be auto-enrolled into that umbrella's pension scheme. This means an umbrella company contractor switching service provider several times during the year will be auto-enrolled into as many pensions schemes, unless they choose to opt out.

Opting out of pension auto-enrolment

"The legislation is designed to encourage more workers to start saving and making contributions for their retirement alongside their employer, which is why the majority of employees will be enrolled," explains Kelly. "However, many contractors already make provision for a pension and may not wish to be included in their umbrella company's scheme."

All contractors will have the option of formally opting out, but the mechanism to do so may vary. "Opting out might require the contractor to make a phone call, fill in a form online or write a letter; it really depends on their umbrella company and pension provider," notes Kelly.

Whatever the mechanism, the legislation is clear that workers cannot make arrangements to opt out until they have actually been auto-enrolled. So, any contractors wishing to opt out need to wait for communications from their umbrella company or professional employment organisation on how and when they can do this.

And he warns contractors to be alert to pressure from an employer to opt out: "Less well managed umbrella companies may try to exert pressure on their contractors to opt out so the service provider can save the administration and pension cost.

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Derek Kelly, Parasol

Implications of auto-enrolment for umbrella contractors

As Kelly explains, there are advantages and disadvantages to the new scheme for umbrella contractors: "By remaining enrolled, contractors will benefit from a funded pension and save tax and National Insurance Contributions on the contributions being made."

Funding the additional cost will depend on the client and agency. Some will choose to increase rates to meet the costs, others may not. Either way, the employer's contribution will come from the income generated by the contractor's work.

"However, umbrella company contractors who trade via multiple service providers may find themselves with multiple pension pots," says Kelly. "This may not be the most efficient method of saving for their retirement. Plus some contractors may not wish to use a pension, or purely a pension, to fund their retirement."

Staging dates are when auto-enrolment takes effect

Depending on which umbrella company they are working for, not all contractors will be immediately auto-enrolled. Staging dates dictate when different sized umbrella companies must implement auto-enrolment. The first staging date, on 1 October 2012, was for companies with greater than 120,000 employees.

"The staging date is the date point at which an employer must have auto-enrolled their employees into its pension scheme," continues Kelly. "Staging dates span five years, with the newest or smallest employers having until October 2017 to implement auto-enrolment."

Individual contractors must choose themselves whether or not they wish to opt out of their umbrella companies' pension schemes, but the vast majority of umbrella companies will not be able to offer pension advice to contractors. "If in doubt, seek professional advice from a financial adviser," urges Kelly.

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