AUTO ENROLMENT AND THE EMPLOYER DUTIES – PAY REFERENCE PERIODS FACTSHEET

It’s important to understand exactly how pay reference periods work as they’re applied in two different ways within the employer duties:

- To measure a worker’s earnings for assessment.
- To determine the earnings from which pension contributions are deducted.

This factsheet will explain how pay reference periods are used under auto enrolment and the employer duties. It’s based on our current understanding of the relevant legislation and regulations, which might change in the future.

MEASURING WORKERS’ EARNINGS FOR ASSESSMENT

Employers must assess their workforce to find out the types of worker they employ and the duties they’ll have to carry out. Part of this process involves establishing the earnings payable in the relevant pay reference period. There are three steps an employer can follow to do this.

Step 1 – identify the pay reference period

The pay reference period is the period of time for which an employer pays a worker and must be one week or more.

Pay reference periods in practice — some basic examples.

Chris is paid a monthly fixed basic salary in arrears, regardless of how many hours he works in the month. He is paid on the 20th of the month for work done from the 1st to the end of the previous month. Chris’ pay reference period runs from the 1st to the end of the month.
Clare is paid a monthly fixed basic salary in advance, regardless of how many hours she works in the month. She is paid on the 23rd of each month. The payment relates to work that will be done between the 24th and the 23rd of the following month. Clare’s pay reference period runs from the 24th to the 23rd of the following month.

Andrew is paid weekly on a Friday for the hours worked during the week, beginning on the Monday and ending on the Sunday. His pay reference period runs from Monday to Sunday.
Step 2 – identify the relevant pay reference period for each worker

Employers will then need to identify the relevant pay reference period for each of their workers. This is the pay reference period in which the assessment date falls.

Relevant pay reference periods in practice – a basic example.

Mary is 21 and works Monday to Thursday at Scott Printers. Scott Printers is owned by Dave Scott who runs a monthly payroll which closes on the 24th of each month. He pays his staff directly into their bank account on the last working day of each month.

Staff are paid in respect of the work they have done for each calendar month. This means that Mary’s pay reference period starts on the 1st calendar day of each month and runs to the last calendar day.

Mary turns 22 years old on 17 March. Dave knows that age is one of the assessment criteria and he’ll now need to establish whether Mary should be automatically enrolled into their pension scheme.

The relevant pay reference period for working that out for Mary is the one that runs from 1st to 31st March, as this is the pay reference period in which her birthday falls.

Step 3 – identify earnings in the relevant pay reference period

Having established the relevant pay reference period for assessing a worker, the next step is to identify the earnings in that period to deduct pension contributions from. Employers will need to consider what is payable to the worker in the whole of the relevant pay reference period, and how much of this is made up of qualifying earnings.

Identifying earnings in practice – a basic example.

We now know the relevant pay reference period used to assess Mary is 1st to 31st March. On 17 March, when Mary turns 22, Dave needs to consider what is due to be paid to Mary in this period.

Mary receives a monthly salary of £500 but worked four hours overtime on Friday 28 February. This will be paid in her March pay because it was worked after the February payroll closed. Mary also works overtime on Friday 26 March. Because payroll for March has closed, this is not due to be paid to her until the April payroll. It will therefore not count towards her qualifying earnings. Dave identifies that Mary has gross earnings due in the relevant pay reference period of:

- £500 basic salary.
- £50 overtime in respect of Friday 28 February.

Since qualifying earnings includes overtime as well as basic pay, Dave identifies that the qualifying earnings payable in the relevant pay reference period will be £550.

**Qualifying earnings**

The minimum contribution quality requirement for an auto enrolment scheme is based on a band of earnings called qualifying earnings. The qualifying earnings band is earnings of more than £6,032 and £46,350 or less. These are the figures for 2018/19 and they’re expected to change each year.
**Deducting and paying pension contributions**

Employers must deduct pension contributions from the jobholder’s earnings in every pay reference period after their auto enrolment date. But not every jobholder will have an auto enrolment date that exactly matches the start or end of the relevant pay reference period. This could mean that the first contribution is only due on the part of the earnings paid from the auto enrolment date to the end of the relevant pay reference period.

**Deducting pension contributions in practice — a basic example.**

Brown’s Bakery pays workers for work done from the 1st to the end of the month. Their pay date is the 24th of each month.

Jim starts work with Brown’s on the 15 May and is assessed as an eligible jobholder. The relevant pay reference period used to assess Jim was 1st to 31st May. As Jim started midway through the month the first pension contribution due for him will be based on his part month earnings.

In this case, that will be Jim’s earnings from 15th to 31st May. The June contribution will be based on his earnings for the complete month.
Deducting pension contributions for a period longer than the pay reference period

It’s also possible for the first pension contribution to be in respect of a period longer than one pay reference period, depending on when the auto enrolment date falls.

Deducting pension contributions in practice — a basic example.

Grant also joins Brown’s Bakery in May and is assessed as an eligible jobholder. His start date is 26 May so the relevant pay reference period used to assess Grant was 1st to 31st May.

Grant’s start date falls after the pay date of the 24 May. This means the first pension contribution due for him will be based on his earnings for a period longer than the pay reference period. In this instance, that will be Grant’s earnings from 26 May to 30 June.

How Royal London can help

As you can see, it’s important employers understand how pay reference periods are used under auto enrolment to allow them to meet their employer duties. Royal London are pension experts and want to work with you to prepare for auto enrolment. To find out more, speak to your usual Royal London contact or visit the auto enrolment area of our website:

Advisers – adviser.royallondon.com/workplacepensions.

Employers – employer.royallondon.com/workplacepensions.
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