

Opt outs

For employer use only.

Opt outs

If an employee decides to leave your pension scheme within a month of being enrolled and receives a full refund of any contributions they've made, this is known as 'opting out'.

Employees are required to complete an 'opt-out notice' if they wish to opt out. The opt-out notice is typically provided by the pension scheme. This is to avoid any employer involvement in their decision to opt out, which could lead to a breach of the law. With some pension schemes, the opt-out notice is completed online or by telephone.

When an employee opts out, you must stop payroll from deducting any further contributions immediately and arrange to refund any contributions already collected from payroll.

The opt-out period

Once employees have been enrolled into the pension scheme, they have one calendar month during which they can opt out and get a full refund of any contributions. This is known as the 'opt-out period'. It starts from whichever date is the later of:

- the date active membership was achieved, or
- the date they received their enrolment information

Employees can't opt out before or after the opt-out period. If they decide to leave the scheme after this period, they will instead be 'ceasing active membership' and they will not usually be permitted a refund.

Refunds

If an employee opts out, you must give the employee a full refund of any contributions they've made. Your payroll will have a record of how much this is. You'll need to refund any contributions they've made within a month of them opting out. Normally, you should issue the refund in the next payroll after you get the opt-out notice.

The pension scheme will refund any contributions it's received for that employee to you, usually to the same bank account the payment originated from. Don't wait for the scheme to refund you before you refund your employee as this could mean you miss the one month deadline.

Opt-out dates

You must keep a record of opt out dates for your employees. Partly for audit purposes, but also as this date is required for the re-enrolment assessment at your re-enrolment date. At the re-enrolment assessment, you do not have to re-enrol eligible employees if they have opted out in the 12 months prior to your re-enrolment date. This covers opt outs and 'soft opt outs' – a soft opt out is an employee who chooses to stop contributions to your scheme or reduce the total

contributions that lead to their total contributions being below statutory minimums of a qualifying scheme.

Standard Life manage the opt-out process for the majority of our scheme employers and we store opt-out dates on your behalf. You can access a report of all relevant opt-out dates for your scheme on our on-line platform.

Standard Life do not store data for soft opt outs as reducing or stopping contributions is a payroll process and you should consider how you retrieve this data in advance of your re-enrolment date.

After the opt-out period

Employees may still choose to stop or reduce their contributions below statutory minimums after the opt-out period has closed, and as such would be a soft opt out. This does not entitle employees to a refund of contributions but when it comes to your re-enrolment date, you are required to assess them in the same way as you would an employee who opted out in their one calendar month opt-out period.

If they are assessed as eligible for re-enrolment, then your action may be to restart or increase contributions to their existing plan, rather than enrolling them to a new plan.

Key points

- Employees who have been automatically enrolled or who have opted in have the right to opt out
- The decision to opt out must be taken freely by the employee
- Employees cannot opt out until after they've been automatically enrolled
- The opt-out period is one month from when active membership is created, or they receive their enrolment information, whichever is later
- Employees opt out by completing an opt out instruction which is returned to you, as their employer. Standard Life offer an online or telephone opt-out service which manages opt-outs on behalf of the majority of our scheme employers
- You must issue a full refund of any contributions the employee has made within a month of receiving a valid notice

Source: The Pensions Regulator - Detailed guidance for employers no.11. April 2015.



For further information, please refer to The Pensions Regulator website www.thepensionsregulator.gov.uk/employers