

Pensions Reform - You will be affected

The pensions reform legislation being introduced in 2012 will have wide-ranging effects across every field of business. This leaflet is designed to give you an understanding of the changes and their impact on your company and what you need to do to prepare for them.

It is widely recognised that people are living longer and not saving enough to provide them with a sufficient income in retirement. The Department of Work and Pensions has estimated that around seven million people are not saving sufficiently for their retirement. While the full proposals include reforming the State Pension to make it simpler and more generous in order to extend peoples working lives, the key reforms affecting employers relate to the Government's ideas for making it easier for more people to save for their retirement. The onus will be on employers to help encourage staff to save.

Automatic Enrolment and Compulsory Contributions

Between 2012 and 2016, you will have to automatically enrol all eligible employees in a qualifying pension scheme and make contributions to their plan. This can be your own company scheme if it meets certain criteria or the Government's new National Employment Savings Trust (NEST) scheme.

Eligible employees will be:

- Those who are not already active members of a qualifying scheme
- Are aged between 22 years and the State Pension age
- Earn over £7,475 gross a year (in 2011/2012 terms) which includes overtime, bonuses, commission etc.

The Government has set the minimum contribution levels as follows:

Total Minimum Contribution	Employee Pays	Tax Relief	Employer Pays
8%	4%	1%	3%

Qualifying earnings are basic salary plus commissions, bonuses and overtime between £7,475 and £38,185 a year (in 2011/2012 terms) aligned with the National Insurance primary threshold.

All employees will have to be automatically enrolled within three months of starting employment. Employees can opt-out of the scheme one month from the day they have been told they have been automatically enrolled. All pension contributions paid by an employee who opts out must be refunded, and current regulations stipulate that an opt-out form must be obtained by the employee available from the pension provider.

Employees that opt-out will have a re-enrolment exercise every three years. The expectation is that inertia will lead many people to remain automatically enrolled, just as inertia today appears to be an important reason for a lack of pension saving by many people.

Employees between ages 16 and 21 or over State Pension Age, can ask to be enrolled and the employer will have to contribute. Low-earning employees can also ask for you to arrange a pension for them, but in this case you will not have to pay in.

It is possible for the employer to pay more and the employee less as long as the total contribution at least meets the minimum 8% contribution.

The auto-enrolment is to be introduced in stages which will be based on the number of employees involved - the levels of contributions is also to be phased in as indicated in the following tables:

Date	Employee Pays (less tax relief)	Employer Pays
Before October 2016	1%	1%
October 2016 - October 2017	3%	2%
From October 2017	5%	3%

Number of PAYE Staff	Staging Date
50,000 +	Q4 2012
10,000 - 49,999	Q1 2013
4,000 - 9,999	Q2 2013
1,250 - 3,999	Q3 2013
500 - 1,249	Q4 2013
250 - 499	Q1 2014
90 - 249	Q2 2014
50 - 89	Q3 2014
< 50	Q3 2014 - Q1 2016
New employers	Q1 2016 - Q3 2016

It has also been taken into account that many workplace schemes, unlike NEST, do not use 'band earnings' (which include bonus, overtime and commission) to calculate contributions. Most use 'basic earnings' which refers to monthly or hourly pay, excluding variable pay or bonuses.

Employers will still be able to use basic earnings as long as the overall pension contribution is at least 7% of earnings, although if opting for 7% you will have to certify that 100% of total earnings are in fact total earnings. If you choose 8% of basic earnings, you will have to certify that at least 85% is from basic earnings. Both these options require a 3% employer contribution. Alternatively, you can use a contribution of 9% of basic earnings - of which 4% comes from the employer and 5% from the employee - and in that case no certification to the level of basic earnings is required.

Qualifying Company Schemes

If you wish to use your own Company Scheme to meet the new requirements, it will have to meet the following qualifying criteria:

- Does it permit auto-enrolment?
- Are employees auto-enrolled within 90 days of joining the company?
- Does it have an investment default fund?
- Does it deliver a minimum accrual rate or minimum contribution?

If your company scheme passes these criteria then it will qualify and you do not need to offer the NEST scheme.

Where you calculate contributions based in different earnings rates, earning bands or definitions of pensionable pay, your scheme will still be qualifying provided the contributions do not fall below the cash equivalent of the minimum level for the NEST scheme.

The qualifying criteria are intended to allow you to easily compare and choose the form of pension that best suits your company.

National Employment Savings Trust (NEST)

The NEST scheme (formerly known as the personal accounts scheme) is intended as a vehicle for low to moderate earners who do not have access to a company scheme. It is a simple, low-cost way for individuals to save. It will have a limited number of investment funds and a default fund for all those that do not make the choice. There will also be an annual contribution limit of £4,271 (in today's terms) per annum which will be increased according to earnings year on year and will be reviewed in 2017.

The scheme will operate as a centralised scheme run by a not-for-profit trustee corporation called NEST Corporation and will be regulated by the Pensions Regulator.

Initially there will be a ban on transferring funds in and out of the scheme, but again this will be reviewed in 2017.

NEST will have an annual management charge of 0.3% on the value of the fund, but to meet the costs of setting up the scheme, initial charges will also include a 1.8% charge on contributions.

Employees will only ever have one NEST account linked to their national insurance number that they will keep for life.

NEST Corporation has announced it has appointed State Street Corporation to provide end-to-end fund administration and custody services until October 2020, with the option to extend for a further five years. It has also contracted Tata Consultancy Services to administer the scheme until June 2020, again with the option to extend this for a further five years.

NEST will be a simpler way of meeting the new requirements than running, or setting up, a qualifying company scheme. However, it should be noted that the NEST scheme is unlikely to have as much appeal to moderate or higher earners, or to employees looking for a greater degree of choice and higher contribution levels.

The scheme is due to launch in spring 2011 on a limited basis for volunteer employers and jobholders.

New Compliance Requirements

The requirements are being introduced to ensure that employees' rights are safeguarded. This will stop non-complying employers achieving any competitive advantage and should minimise the need for compliance action. They are designed to manage three key areas of risk:

1. Risk to auto enrolment - each employer will be required to register with the Regulator as to how you will meet your enrolment duties for each of the PAYE schemes you run. Failure to register will be detected by comparing records with HMRC.
2. Risk to the opt-out process - each employer will be required to comply with new statutory employment rights. These will include the right of employees not to be dismissed on grounds related to pension membership and restrictions on agreements which limit your new duties and employee's rights.
3. Risk to pension payments - your payments will be monitored by the pension scheme trustees or administrator, who will be required to report any failures to the Pensions Regulator.

The proposed new regime will place two potential additional costs on your business, in addition to the costs associated with increased membership and contributions, as follows:

1. The administrative cost of registering and meeting your new enrolment duties
2. Any fines incurred by the regulator for anyone failing to meet their obligations.

What you should do and how Lovewell Blake Financial Planning Limited can help

Although the new legislation may not affect you immediately, now is the time to start making preparations. You will need to conduct an analysis to see how many employees will be affected and whether your existing pension scheme meets the quality requirements, and also whether you wish to use your current scheme or simply auto-enrol staff into NEST (or a combination of both).

Should your current scheme be qualifying, we would seriously recommend you consider reviewing the current administration arrangements of the scheme and if the current provider is best placed to take your scheme forward through the new legislation. You also need to decide when you will start addressing the proposed changes – fail to prepare, prepare to fail!

You should also strongly consider offering salary exchange as a method to help reduce costs and we would be pleased to advise you of this very advantageous tax saving to your business.

Whatever decisions your company makes, you will also need to build in time for communicating with employees. As a rule of thumb, a good time to begin communicating the changes to staff in detail is about a year before implementation.

The sooner you prepare your business for the changes that lay ahead, the less onerous will be the impact on you and your employees.

If you require entirely impartial advice on how to meet your future obligations and to provide an invaluable service to you and your employees, please contact Hayley Sharman, Employee Benefits Supervisor at Lovewell Blake Financial Planning Limited, 89 Bridge Road, Oulton Broad, Lowestoft, Suffolk, NR32 3LN. Telephone 01502 532290 or email hms@lovewell-blake-fp.co.uk