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Pension reform – it is coming

Be in the Driving Seat

The latest guidance to pension reform has recently been published and **will** affect you.

From 2012, changes to pension law will affect all employers with at least one worker and introduce compulsory pension contributions.

The date on which your duties, as an employer, will commence is dictated by the size of your workforce. This date is referred to as your "staging date".

Whilst it is important that you are aware of when the government will impose your "staging date" the preparations and implementation of the new Pension legislation can be within your control. This can be achieved by bringing forward this date if it benefits your business. A review of your existing pension schemes and joining procedures (to ensure that they meet the new requirements) plus notifying the Pension Regulator of your chosen staging date will ensure that you have complied with the new legislation.

Whilst it is essential that you are aware of and comply with the regulations you also need to assess the cost. This will impact your business with additional salary costs, the cost of initial implementation and the ongoing administration costs.

In ***Appendix 1*** we have briefly detailed what the new legislation proposes.

Preparation and assessment of your workforce needs to be carried out and detailed records must be maintained. All of which is subject to review by the Pensions Regulator at their request.

It may be important to remind employers of their duty to consult with the workforce of any changes that may be made to existing arrangements; this is normally no less than 60 days. Indeed even if your "staging date" is post October 2012 certain aspects of the legislation will apply to you as an employer effective from this date.

If you are concerned how this may impact on your business and would like our assistance in establishing your procedures, review existing schemes, access what best meets the need of your employees and when to implement, please contact us.

Pension Reform Appendix 1

Summary

From October 2012 there will be new legal duties on employers aimed at getting more people working in the UK to save for retirement. The government is targeting the nine million or so employees of private sector firms, mainly low or middle-income earners, who do not benefit from a company pension scheme.

Employers will have a legal duty to automatically enrol workers into a pension scheme that meets or exceeds certain minimum legal standards, which will include minimum employers contributions.

These rules will not affect small employers (less than 50) until 2015 and the full impact of compulsory contributions will be phased in and will not apply until 2018 however it will be important to plan ahead to ensure the cost of contributions as well as the administrative burden is managed.

Auto enrolment

Workers will have to be **automatically** enrolled if they are earning more that £7,475* per year and are between 22 and state pension age. Workers can opt out if they want.

Workers between 16 and 22, or between state pension age and 75, will have the right to ask to be enrolled but will not have to be enrolled automatically.

Workers employed for less that 3 months will be able to join immediately if they wish.

Staging

Auto enrolment will be introduced in stages between October 2012 and September 2016, with larger employers the first affected. A sample of staging dates is shown in the table below:

No of employees	**Staging date**
250- 1,249	October 2013
50 - 249	April 2014 – April 2015
Less than 50	June 2015 – April 2017
	Based on PAYE reference number

Cost to employers

The total minimum contribution (employer and employee) will be equal to 8% on a band of earnings. Of this 8% a minimum of 3% will have to be employer contribution.

Earnings between £5,715 and £38,185* will be the band earnings on which 8% will be due. The definition of earnings will include salary, overtime, bonuses, commissions and statutory sick/maternity pay. The minimum contribution requirement will be phased over a 5 year period as shown in the table below:

	Minimum % that must be paid in total	Minimum % that employers must pay
Oct 2012 – Sept 2016	2%	1%
Oct 2017 – Sept 2018	5%	2%
Oct 2018 onwards	8%	3%

National Employment Saving Trust - NEST

The government has set up NEST and advised that this new low charge pension scheme will be available for any employer to use to satisfy the auto enrolment requirements.

NEST is designed for those on low to moderate incomes and there is an annual contribution limit of £3,600, which could be a barrier to those who employee senior staff. NEST can be used alongside other schemes.

Alternatives to NEST/Existing Pension Schemes

Employers who have a 'qualifying' scheme do not need to be concerned with NEST.

For existing schemes to qualify they must meet certain criteria prescribed in the Pensions Act 2008, and must require minimum contributions as outlined above.

Does your existing Scheme meet the criteria?

*these figures are linked to National Insurance and tax thresholds and will be reviewed annually

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