



Pensions Reform 2012

THIS WILL AFFECT EVERY UK EMPLOYER

Background

To encourage workplace savings, The Pensions Act (2008) will auto-enrol some 12 million employees (Source: Scottish Life, 2009) who are not already making the required level of pension contributions into a Qualifying Workplace Pension Scheme (QWPS).

The onus for auto enrolling employees lies solely with their employer. The proposed rules or 'employer duties' around auto enrolment are complicated and onerous, especially for small and medium sized firms or those with a high turnover of staff.

Will it affect my company?

Yes. It will almost certainly increase your costs and put a drain on your administration resources. The impact could be significant, especially if you do not currently make contributions to your employees' pensions or you have low take-up in your existing scheme.

Who must be auto-enrolled?

Every employee who is aged between 22 and State Pension Age and earning £5,035 or more must be auto-enrolled on the day they become eligible into a QWPS if they are not already a member.

How much will the contributions be?

Initially, this will depend on the size of employer (yet to be defined by the DWP). The contribution levels will likely be phased in, but the final amounts will be:

3% Employer	} → of 'band earnings'
4% Employee	
1% Government (tax relief)	

What are band earnings?

Band earnings include salary, regular bonuses and overtime. The earnings band goes from £5,035 to £33,400 although this will increase in future in line with budget/tax band changes.

Can employers offer alternative benefits to auto-enrolment into a QWPS?

No. It will be a breach of their employer duties to offer any inducement to either join or opt out of auto enrolment.

What are the 'employer duties'?

- Employers must auto-enrol each eligible employee into a QWPS within 14 days of them becoming eligible.
- They must calculate and make daily deductions from the employee's salary for payment into the QWPS.
- They must provide information about auto-enrolment to eligible employees without providing advice.
- They must re-auto-enrol employees who have opted out, 3 years from the date that they were first eligible.
- Employers must make a contribution of 3% of band earnings, though they can make larger contributions.
- They must issue a full refund to employees who opt-out within the opt-out period.

What happens if the employer fails to meet their duties?

Failing to meet the employer duties constitutes a breach of the rules. This is punishable by a maximum fine of £50,000 per breach. It is a criminal offence, and failure to meet the employer duties whether unintentional or not, could also result in a prison sentence.

How do employees opt-out?

Employers must enrol all eligible employees into a QWPS. To opt-out the employee must obtain an opt-out form from the scheme administrators. The employer cannot provide the opt-out form without the employee requesting it from the administrator. Opt-outs by phone or email will not be permitted.

What options do employers have?

Employers must auto-enrol eligible employees into a QWPS. This might be their own pension scheme (either existing or new) or Personal Accounts.

What are Personal Accounts?

Personal Accounts will be the national QWPS into which employers can auto-enrol their eligible employees if they chose not to provide their own QWPS.

Are there any benefits to employers who want to contribute more than the minimum?

Yes. The main aim of auto-enrolment is to increase workplace savings for low to medium earners. There are incentives for employers to make higher contributions to their employees' pensions. A 'quality' QWPS (QQWPS) has the following contribution shape:

- 4% Employee
- 6% Employer
- 1% Government (tax relief).

Using salary sacrifice/exchange, an employer who provides a 5% matched contribution structure will meet the criteria for a QQWPS.

What are the advantages of offering a QQWPS?

There are a number of advantages for employers who choose to meet the 'quality' standard which include:

- It differentiates them as an employer who is genuinely concerned with their employees' financial future.
- It should aid recruitment and retention as employees compare different pension schemes.
- Instead of daily monitoring, deductions and enrolments, employers can have a 90-day sweep up of all eligible employees and auto-enrol them at this point, just four times a year.

What support is available?

We have access to several packages of support to help employers of all sizes prepare and plan for the introduction of the new regulations in 2012. These can include:

- Pension Scheme Audit for 2012 Readiness
- Pension Scheme Provider and Structure Review
- Annual Pension Scheme 'Auto-enrolment MOT'
- Employee Communications – auto-enrolment, investment information, retirement planning
- Individual Advice for Employees

I'm concerned about the implications for my company. What do I do?

Don't delay. Contact us now about how the above changes will impact on your firm. We will put you in touch with our colleagues at Towergate Financial Services who can give you their professional advice.