

Workplace pension c

Back in 2001, employers with five or more employees had to make a Stakeholder or another type of pension available to their staff.

Now, even bigger pension changes are coming – to try to encourage more of us to save for retirement.

Background

The aim of the reforms is to increase the number of people saving enough for their retirement, as the pensioner population is due to increase enormously. The Office for National Statistics forecasts that 12 million pensioners in 2010 will increase to 16 million in 2040. Over roughly the same timeframe the number of centenarians will increase from 12,000 to 155,000. At the same time, the dependency ratio – the numbers in work paying taxes and National Insurance to support the non-working population – is set to worsen.

The pension changes have been a long time in the planning. Back in 2003 the Government set up a Pensions Commission to look at pensions saving. Since then we have had three Pensions Commission reports, some white papers, Pensions Acts in 2007 and 2008, several consultations from the Department for Work and Pensions and, in January this year, a host of draft regulations. A lot of working detail is yet to emerge. This article gives an overview of the position as it stands at the moment. There may be changes before 2012.

Automatic enrolment

Starting in October 2012, employers will have to enrol most of their staff into a pension scheme, and pay at least a minimum level of contributions. This new requirement to enrol staff into a pension scheme will be 'staged' (phased in, to you and me) starting with the very largest employers. All employers in the UK will be staged by Autumn 2016.

Employees will have the right to opt out of the pension scheme but if they do, they will be re-enrolled every three years or so.

The Pensions Regulator will oversee automatic enrolment and related employer duties, and will have powers to fine employers for non-compliance.

What if employers don't have a pension scheme?

Employers who already have Stakeholders, group personal pensions or other schemes like The Pensions Trust will be able to use these arrangements, provided they meet a set of quality standards related to contributions or benefits.

However, for many smaller employers who don't have a pension scheme a new scheme is being set up to help them comply with the automatic enrolment requirements. The National Employment Savings Trust or 'NEST' (previously known as Personal Accounts) will be available for any employer that wants to use it.

NEST will be a low-cost, trust-based workplace pension scheme, run by a Trustee Corporation with input from member and employer panels. It is expected to become the largest workplace pension scheme in the UK with between 2 million and 8 million members. NEST is currently being designed and built by the Personal Accounts Delivery Authority, which will become part of the NEST Corporation in July this year.

Who is going to be affected?

Not all employees will have to be automatically enrolled – only 'eligible jobholders', that is employees aged 22 to 64 and earning at least £5,000 a year. Other employees can ask to be enrolled, but employers may not have to provide a contribution.

If you are already a member of a suitable scheme then your employer will have to confirm this in writing to you within two months of your organisation's 'staging date'.

What will it cost?

Minimum contributions apply to defined contribution schemes and, like automatic enrolment, will be phased in. Phasing reduces the impact on employers' budgets and on employees' take-home pay, making it less likely (the Government hopes) that employees will opt out due to the cost.

The first phase runs from the employee's automatic enrolment date (whatever that may be) until September 2016.

Changes 2012

A minimum of 2% of 'qualifying earnings' is required, of which the employer must pay 1%. Qualifying earnings are (roughly) earnings between £5,000 and £33,500.

These figures will be revalued inline with average earnings so by the time we get to 2012 the 'qualifying earnings' band will be a bit higher.

The second phase will last a year – from October 2016 to September 2017. The minimum contributions will increase to 5%, with 2% at least coming from the employer. Then, in October 2017, contributions will go up again, to 8%, with the employer contributing at least 3%. Employee contributions will attract tax relief so the real cost to the employee will be a bit less. For example, if the employer pays 3% to a Stakeholder and the employee pays 4%, an additional 1% representing tax relief is paid into the policy direct by HM Revenue & Customs.

Some employers may have to make changes to their current schemes to ensure they comply with these minimum contribution requirements.

Employers and employees will be free to pay more than the minimum if they wish. Employees should think about what income they will need to support the retirement lifestyle they want, and whether their contributions are likely to be enough to provide this.

If you are lucky enough to have a non-contributory scheme then, provided the minimum contributions are covered, the new regulations won't stop your



employer continuing with these non-contributory arrangements. But some employers may have to start collecting member contributions if they find their pension costs are too high, if lots more employees join the pension scheme after automatic enrolment starts.

What about defined benefit schemes?

The phasing arrangements for defined benefit schemes – like The Pensions Trust's CARE Scheme, SHPS, the SFHA Pension Scheme, and others – will be a bit different because it's not feasible to phase in contributions to this type of scheme. Employers will be able to phase automatic enrolment instead, perhaps enrolling employees by location or job type. However, employers will have to plan this in advance and let employees know what their enrolment date will

be. They will also have to allow employees to opt in to the pension scheme earlier if they want to. Employers will have until the end of September 2016 to complete automatic enrolment of existing staff. New starters from the organisation's staging date onwards will have to be enrolled straight away if they are eligible jobholders.

What about 'waiting periods'?

Some employers don't allow employees to join the pension scheme until they have completed their probation, or have a minimum period of service. 'Postponement' will only be allowed in very limited circumstances once automatic enrolment is introduced.

If employers are using defined contribution schemes then they will be allowed to postpone enrolment for three months if the contributions are generous.

A minimum contribution of 11% of qualifying earnings, with at least 6% from the employer, will be required. Employers using defined benefit schemes will also be allowed to postpone enrolment for three months.

Postponement can only be used once in any 12 months, to protect employees on short-term contracts who could otherwise find they are never allowed to join the scheme.

It won't be allowed at all in NEST – this is one of the measures being adopted to try to ensure that employers will continue to support their existing schemes.

How might employers react?

As more information about the changes is published, employers will begin to forecast what their extra costs might be once they are required to operate automatic enrolment and minimum contributions.

Some employers may be able to absorb any additional costs; others may have to assess how to make savings in other areas to meet the pension costs. There is a risk that pressure on budgets will force some employers to reduce their pension contributions.

Many employers will want to review their current pension arrangements or the wider employee benefits package, and will consult with employees if changes to terms and conditions are proposed.

What happens if there's a change of Government?

All the political parties agree that too many people are not saving enough for their retirement, and with an ageing population something needs to be done about it. There is broad cross-party support for the principle of automatic enrolment, but it is possible that a new Government might want to look at the detail of the reforms and make some changes.

Need more information?

A pension contribution from your employer is part of your pay. If you haven't joined your employer's pension scheme, your Human Resources or Payroll colleagues may be able to give you more information. Can you afford to put off saving for your retirement?

The Department for Work and Pensions (DWP) has produced a booklet 'Workplace Pensions are Changing' which can be downloaded from the 'Pensions Reform' area on the DWP website at www.dwp.gov.uk/policy/pensions-reform

Please note as it was drafted before the NEST scheme name was adopted, the booklet refers to 'Personal Accounts'.

Further information about NEST can be found at www.padeliveryauthority.org.uk

