SOUND FINANCIAL MANAGEMENT

The Ovation Guide to

Workplace Pensions Guide for Employers

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Workplace Pensions a Guide for Employers

The Government has introduced legislation to reform workplace pensions which will affect all employers. This guide aims to provide an overview of the main ways the Pensions Reform legislation will affect you.

Why is Pensions Reform needed?

There are three main reasons:

1. Many people are not saving at all for retirement, or not saving enough.

2. Life expectancy is increasing – people will live longer in retirement and the size of their pension fund needs to be greater to fund this.

3. The Government has introduced a single tier state pension, but this is unlikely to be enough to meet retirement needs.

This means there's an obvious need to encourage far more people to save for their retirement and the Government is placing the onus on employers to help encourage people to save.

You'll be required to automatically enrol all eligible workers into any 'qualifying pension scheme'. This could be your own Company Scheme, if it meets certain criteria, private sector pension scheme or NEST (National Employment Savings Trust), a simple, low-cost pension scheme being introduced by the Government.

You'll be required to contribute at least 3% of each worker's eligible earnings which is intended to incentivise them to join. Their own contributions and tax relief will be added to this to meet a minimum 8% contribution rate.

When will the reforms start to apply to me?

Each employer will be given a staging date, based mainly on the number of eligible employees, by which they must implement auto-enrolment.

This will first be rolled out to the larger employers, starting from October 2012 through to employers with 30 staff or less by 2017.

You can find your staging date on the Pensions Regulator's website: http://www.thepensionsregulator.gov.uk/employers/staging-date.aspx

We recommend you log on now to find out when your likely staging date will be, so you know how long you have to plan to make the necessary changes.

How much do I and my employees have to pay in?

There are minimum contribution levels required for a pension scheme to qualify under the new regulations.

Contribution levels are based on one of two qualifying bases; banded earnings and non-banded earnings. And the minimum amounts will be phased in over the next few years.

Banded Earnings Basis

By April 2019, the minimum contribution is 8% of a band of earnings (£5,824 to £42,385 using the figures for the 2016/17 tax year), but the lower and upper levels will change from time to time.

The employer must contribute at least 3% and can ask employees to pay up to 5%. These percentages apply to the employee's total earnings within the band, so they include overtime and bonuses, not just basic pay.

Non-Banded Earnings Basis

Employers using a defined contribution scheme can choose to make contributions based on an alternative earnings definition providing they satisfy one of the following minimum contribution requirements:

	Basis 1	Basis 2	Basis 3
Total contribution	9% of Basic Earnings	8% of Pensionable Earnings	7% of Total Earnings
Minimum Employer Contribution	4%	3%	3%
Reference to total earnings	None	Pensionable earnings must be no less than 85% of total earnings	100%

If you already have an existing scheme, you may find it easier to use a non-banded earnings basis, rather than change to a banded earnings basis. You should take professional financial advice if you're thinking of changing the contribution basis.

Auto-Enrolment

From your staging date, you will need to enrol all eligible employees into a qualifying pension scheme. An eligible employee is someone who:

- hasn't already been signed up to a qualifying scheme; and
- is aged between 22 and the state pension age;
- earns over £10,000 gross per annum. (Subject to likely annual rises)

Whilst it is compulsory for employers to enrol eligible employees, it is not compulsory for the individual to remain in the scheme.

Employees will be able to opt-out of the scheme if they choose not to participate. Employees who give notice during the formal opt-out period of one month will need to be put back into the position they would have been in if they had not become members in the first place. This may include a refund of any contributions taken following automatic enrolment.

Should an employee choose to opt-out, there is no obligation for the employer to make contributions.

Where employees have chosen to opt out of the pension scheme the company must carry out a periodic exercise to automatically re-enrol them. The employer can choose an automatic re-enrolment date up to three months either side of the third anniversary of their staging date and subsequent tri-annual anniversaries.

Phasing in Auto-Enrolment

The level of compulsory contributions will be phased over the next few years. The phasing amounts for banded earnings are shown below.

	Total	Employer
Before 05/04/18	2%	1%
06/04/18 to 05/04/19	5%	3%
06/04/19 onwards	3%	5%

NEST

The National Employment Savings Trust (NEST) is one pension scheme that will meet employer's obligations. It is designed to be a simple, low-cost option and will be available to all employers regardless of size.

Unless you are already operating a Company Scheme (see below) that meets (or can be changed to meet) the required criteria, or you set one up, you will have to enrol each eligible worker into NEST.

However, while it will have low charges, it will also have a very limited fund choice and initial restrictions on transfers and contributions levels.

The NEST pension will be run by the NEST Corporation and regulated by the pension regulator.

The basics of NEST are:

Charges

The charges are expected to be:

- 1.8% initial charge on each contribution to cover NEST start-up costs
- An annual management charge of 0.3% of the value of the fund.

There should be no fees for employers.

Investment Choice

Employees will be automatically enrolled into the default fund. There are 5 other alternative funds which include Higher Risk, Ethical, Sharia, Lower Growth & Pre-Retirement.

Those who don't want to make an investment choice will stay in the default fund.

NEST is in place to guarantee access to a pension scheme. However, it may be that there are other more suitable options for you, especially for moderate to higher earners, or to employees looking for a greater degree of choice and higher contribution levels.

Keeping or setting up your own qualifying scheme could be a more effective benefit and retention tool for a broader range of staff.

Qualifying Company Schemes

As an alternative to NEST the company can offer access to a qualifying pension scheme. This can be:

- A final salary pension scheme
- A money purchase pension scheme
- A group personal pension scheme or stakeholder pension scheme

If you want to use your own company scheme or put in place an alternative to NEST, it will have to meet the qualifying criteria. In order to do this it must:

- Permit auto-enrolment
- Auto-enrol all employees within 90 days of joining the company
- Have a default investment fund
- Pay enough contributions so that it is qualifying (see above)

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