Sea change for pensions

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Pension costs for some employers are set to soar from next year.

Steve Lilleyman
Employee Benefits Consultant

Auto enrolment and NEST – National Employment Savings Trust – are phrases we'll all be hearing a lot more of this year. The legislation, which comes into force in 2012, will bring a radical shake-up of pensions making it compulsory for workers to be auto enrolled into a qualifying scheme or NEST, and for contributions to be made by both employees and their employers.

The problem

No-one is any doubt that a pension crisis is looming. We are all living longer and NEST's own research suggests that on average only between 30%-50% of employees with access to a company pension scheme have actually joined it.

The Government is trying to ensure that everyone has a reasonable income in retirement on top of the basic state pension and is therefore phasing in these changes from October 2012. The largest employers will have to comply from this date, and then progressively smaller employers in monthly tranches until existing companies with fewer than 50 employees commence from August 2014.

Employers will, therefore, be forced to auto enrol staff over the age of 22 and earning more than £7,475 into either a qualifying pension or NEST. Where companies have an existing pension scheme, employers will have to ensure it complies with the new requirements and make any changes to the supporting administration platform. Failure to comply with the new requirements will incur penalties of up to £10,000 a day for the largest employers.

What should businesses do?

If you <u>don't</u> have a scheme in place

Employers will have to make compulsory contributions of 3% of qualifying earnings, which in turn will lead to increased payroll costs and administration costs. In addition, although the Annual Management Charge on contributions of 0.3% is low, it is likely that there will be an upfront charge of 2%. It is essential to plan early.

If you <u>have</u> a company pension scheme

Employers whose schemes do not comply with the new requirements may be fined. The sooner businesses review their schemes, the more time they will have to prepare and, if necessary, restructure their benefits package. In many cases employers could be doubling the membership of their scheme through auto-enrolment of employees who have not yet joined. It is essential to plan early.

Act now

To control the impact of the changes, companies need to review their employee benefits packages and seek professional advice to ensure compliance with the new requirements as cost effectively as possible.

At Target, we are currently setting up new and restructuring employers' existing schemes with no upfront contribution charges and Annual Management Charges as low as 0.75% applied to quality investment funds. In many cases this is without having to charge fees to employers, because of the current availability of commission from providers. However, commissions are due to be abolished by the end of 2012, so it is definitely a case of 'buy now while stocks last!'

WHAT IS AUTO ENROLMENT AND NEST?

The idea behind NEST is to create a low cost pension scheme which is accessible for all.

From 1 October 2012 it will be compulsory for employers to auto enrol eligible staff into a qualifying pension scheme or NEST (the actual date depends on number of employees). Failure to comply will result in an initial flat rate fine of £400, with further penalties of up to £10,000 accruing daily for continued non-compliance.

It will be compulsory for all employees to auto enrol staff aged between 22 and the state pension age earning equal or greater to the single person's allowance (£7475 in 2011/12).

Contributions must be at least 8% of earnings falling between £5715 and £38185. The full contributions, which will be phased in over a three year period, are:

-3% employer
-4% employee
-1% tax relief

There will be a restrictive £3,600 annual cap on contributions into NEST.

Currently, it won't be possible to transfer benefits in/out of NEST, although this is under review.

For more information on NEST and pension changes, or a review of your current scheme, please contact a member of the Financial Management Team.

Your contact **Steve Lilleyman**
Employee Benefits Consultant
T: 07595 203842