

1 October 2012

Special Newsletter

Automatic Enrolment Into A Workplace Pension

The government are set to implement a workplace pension reform to stimulate an increase in private savings. First announced in the Pensions Act 2008, the initiative has been formulated to address problems arising from increased life expectancy coupled with lower pension savings. According to the government, the changes to pensions law will make people more financially prepared for when they retire and will relieve dependency on the state pension.

How it Works

Starting in October 2012, the workplace pension reform will require employers to automatically enrol their workers into a qualifying workplace pension scheme. In addition to the worker paying into their pension, employers will also be required to make a contribution; the government will also contribute by offering tax relief. The advantage to workers is that they will be able to attain a much larger pension than if they saved up on their own.

Importantly, not all workers will be required to enrol into a workplace pension. Only employees meeting the following criteria must be enrolled:

- Employees who are not already in a qualifying pension scheme
- Employees who are aged 22 or over
- Employees who are under State Pension age
- Employees who earn more than £8,105 a year (this figure may change), and
- Employees who work or usually work in the UK

The government posits that automatic enrolment will alleviate many of the issues that have historically discouraged people from saving into a pension, such as the perceived complexity of pensions, general apathy and the lack of employer pension provision. Employees will have the choice to opt out of their workplace pension once enrolled, but in doing so they will lose access to pension contributions from their employer and tax relief from the government.

When Will the Changes Affect My Business?

The initiative will come into effect for some businesses later this year. The government has decided to stage the introduction of automatic enrolment according to business size; this means that the number of employees working for a business will dictate the date by which the new law will apply

(known as the “staging date”). The largest businesses in the UK (those employing 120,000 or more workers) will be affected first, with the initiative starting on the 1st October 2012. The reform will then continue to be introduced over the next several years to smaller firms, ending early 2018.

The staging dates for various business sizes are summarised below¹:

PAYE scheme size or reference	Staging date
120,000 or more	1 October 2012
50,000 - 119,999	1 November 2012
500 - 30,000	Various dates throughout 2013
59 - 499	Various dates throughout 2014
Less than 59	Various dates from 1 January 2015 - 1 April 2017
Employers with no PAYE scheme	1 April 2017
New employers (staging date dependent on when PAYE income first payable)	Various dates from 1 May 2017 - 1 February 2018

The Pensions Regulator (TPR) will contact businesses individually to inform them of their staging date. Large employers will be contacted 18 months prior to their staging date, whereas smaller employers will receive 12 months’ notice.

The government is extending a degree of flexibility to employers with regard to their staging date. Businesses can choose to move their staging date forward if they wish, provided that they have an agreement with a qualifying scheme to act for them at the start of their new (earlier) staging date. This may help employers implement these changes at a more convenient time.

Phasing of Employer Contributions

The minimum contribution that must be paid into a pension will gradually increase over time. Moreover, the contribution that employers must make towards the pensions of their employees is set to gradually increase. This is known as “phasing”. This will apply to most, but not all, pension schemes. The following table illustrates current proposals for phasing²:

Transitional period	Duration	Employer minimum contribution	Total minimum contribution
1 st transitional period	Employer's staging date to 30 September 2017	1%	2%
2 nd transitional period	1 October 2017 to 30 September 2018	2%	5%
1 October 2018 onwards	1 October 2018 onwards	3%	8%

The National Employment Savings Trust (NEST)

There are many different providers of qualifying workplace pension schemes that businesses can take advantage of. One such provider is the National Employment Savings Trust, or “NEST”. This not-for-profit scheme makes it very easy for employers to adhere to the new pensions law:

- The scheme can be implemented on its own or alongside an existing company scheme

¹ To view a complete list of staging dates, please visit <http://www.thepensionsregulator.gov.uk/employers/staging-date-timeline.aspx>

² Duration periods subject to a consultation by the Department for Work and Pensions (DWP). For more information about phasing please see <http://www.thepensionsregulator.gov.uk/employers/phasing.aspx>

- Employers can choose to make the minimum contributions towards employee pensions or pay more
- Employers can contribute towards employee pensions in different ways
- If an employee leaves the company, no administration with regard to the NEST pension is incurred
- The scheme is open to all businesses

The trust also offers a number of benefits and services to employees:

- All NEST members have the facility to view their retirement pot online
- They can communicate directly with NEST, avoiding the need to go through the employer
- They also have access to guidance about saving for retirement, delivered in an easy-to-understand manner
- Members have the ability to change the amount that they contribute toward their pension
- A NEST pension will remain with the worker throughout their life, meaning that should they leave an organisation, become self-employed or stop working, they will be able to continue making contributions to their retirement pot
- Should a worker move to a business that also uses NEST, the new employer will have an obligation to make contributions to the employee's retirement pot

To find out more about NEST, please visit www.nestpensions.org.uk

If you would like to have a no obligation chat about how we can help, please contact us at AP Accountancy Ltd on 01782 444280 or email info@apaccountancyLtd.co.uk with the email title "Workplace Pensions".