



For employers

Let's work it out – factsheet 1

Pensions reform is a package of both state and private pension changes to be introduced in 2012 that will completely change the face of the pension industry in the UK. Employers will have new responsibilities to contribute to their workforce's pension plans, and this will have a big impact on your business.

The overall aim of the government's pension reform strategy is to get more people saving more for their retirement, whether through good private pension schemes or through the new National Employment Savings Trust (NEST) scheme. NEST is a scheme to help low- to medium-earning employees save for their retirement if they don't have access to a good quality employer-sponsored pension.

All employers in the UK other than single-person companies, whether they have one member of staff or 10,000, will need to take action to comply with their new responsibilities under pensions reform.

Main points

The Pensions Act 2008 sets out the new pension responsibilities for employers from 2012 and sets out the establishment of NEST, which is effectively a national pension scheme. Here are the main points:

- Any jobholder aged at least 22 and under state pension age who earns at least £7,336 (in 2010/11 terms) must be enrolled automatically into a pension scheme, unless they're already an active member of a qualifying scheme.
- Any jobholder aged at least 22 and under state pension age who earns between £5,715 (in 2010/11 terms) and £7,336 must be given the chance to join an auto-enrolment scheme, unless they're already an active member of a qualifying scheme. If they choose to opt in to the scheme, employers also have to contribute on their behalf at the minimum level.
- Jobholders outside this age range, in other words aged at least 16 and under 22, or over state pension age but under 75, must be given the chance to join if they want to, as long as they're receiving qualifying earnings and not already an active member of a qualifying scheme. If they choose to opt in to the scheme, employers also have to contribute on their behalf at the minimum level.
- Workers aged at least 16 and under 75 who earn below the qualifying earnings threshold must be given the chance to join a registered pension scheme (not necessarily a qualifying scheme), if they're not already active in one, but employers won't have to contribute on their behalf.
- Jobholders aged at least 22 and under state pension age who aren't active members of a qualifying scheme at the time of their automatic re-enrolment date (generally every three years) must be re-enrolled automatically.
- The pension scheme must be an auto-enrolled one unless the individual is classed as a worker, in which case it's just a registered pension scheme.
- Jobholders can opt out of the pension scheme if they want to. But if they choose to stay in it, a minimum contribution of 8% of the jobholder's 'qualifying earnings' will have to be paid into either the qualifying scheme or NEST, with at least 3% being paid by the employer.
- The main employer responsibilities start in October 2012 and will be staged in over four years. Contributions will be phased in over five years from the date the first employers are staged. Employers and employees only have to pay combined minimum contributions of 2% of qualifying earnings, rising to 5% in October 2016, with the full 8% minimum contributions starting in October 2017.



- Qualifying earnings are the band of gross earnings payable to the employee based on a 12-month pay period. Earnings for this purpose include salary, commission, bonuses, overtime, statutory sick pay and statutory maternity pay.
- Employers who offer a ‘qualifying scheme’ for the jobholder won’t have to contribute to NEST for them, but their contribution should at least match the minimum level.
- The NEST scheme will be run by a trustee corporation as a defined contribution occupational pension scheme.
- The Pensions Regulator (tPR) will be responsible for making sure employers comply with their legal responsibilities. There may be financial penalties for those who don’t, and even the possibility of prison. Employees will be able to whistleblow.

What this means for you

You’ll have many new choices to make in the run-up to October 2012. The first choice will be to decide whether to automatically enrol eligible jobholders into your own company pension scheme, or NEST. This isn’t a stark choice – you may choose one solution for one set of jobholders and another for a different set of jobholders. You should seek legal advice on this if required.

Which solution you opt for depends on many things.

Simple, quick and efficient administration will be paramount: collecting the right contributions at the right time and applying them promptly will be crucial in running a successful scheme. Pension providers offer various flexible solutions to help meet this need and have extensive experience in this area.

Communications will also be very important. Having your company name and logo on pension brochures and/or company pension scheme websites can build loyalty from employees, which will be essential in helping you recruit, reward and retain the right employees for your business. Pension providers offer a range of tailored communications to help you select the right communications for your particular workforce. For example, a company pension scheme website can give employees access to a host of information and useful calculators to help them make decisions on pensions.

What you need to do

Although the details aren’t finalised yet, it’s certainly worthwhile starting to look at the broader picture and discussing your new responsibilities with your adviser now. If you already offer your workforce a pension scheme then your new responsibilities may mean a much higher membership take-up. Considering how to move to a new position gradually will help ease your cashflow, and reduce your communication and education responsibilities come 2012.

Pension providers can set up a company pension scheme that’s individually tailored to the needs of your business. NEST won’t be able to offer that flexibility.

This information is based on our current understanding of proposed and current legislation.

For more information, please contact your financial adviser.

