THE BEST PENSION FOR YOUR PRACTICE

Philip Clark of IQ Wealth Management* explains important changes to workplace pensions that will be introduced from October 2012.

I'll start with an apology! I realise you have already had to deal with CQC, HTM 01-05, CPD and GDC registration as my wife is a dental hygienist and Medical Emergencies Trainer who featured in the winter 2011 issue of *Vital* (Ann Clark, *'If you don't use it, you lose it!'*). This may not be the most exciting article you have ever read as the subject is pensions… **BUT** please do read on as the changes that are coming into place from this October will affect your practice both financially and with regards to administration.

WORKPLACE PENSIONS

I will try to explain the changes to workplace pensions in as uncomplicated terms as possible in the following stages:

1. What's changing
2. Who it affects
3. What's the cost
4. When it will affect you
5. What are the choices
6. Summary
7. Where to go to for help.

What's changing?

Saving for retirement

People are living longer and are likely to enjoy a longer retirement. However, many people are not saving for their retirement at all, and many who are saving are not saving enough.

The changes to workplace pensions will give many more people the chance to save for when they retire. The main benefits for employees are that their employer pays a contribution and that it is an easy way to save. The changes are needed to encourage more people to save for their retirement.

The Pensions Act 2007 and the Pensions Act 2008 have together instigated the most fundamental change to the UK pension system for over half a century. The two Acts were passed by the last Labour Government and were supported by both the Conservative and Liberal Democrat parties while they were in opposition. Those two parties have since formed the new Coalition Government which confirmed in October 2010 that the new pension reforms would go ahead from 2012 as planned. It is expected that around 8 million employees of the 13 million that currently have no workplace pension scheme available to them will soon have the benefit of a contribution to their pension from their employers.

Workplace Pension Scheme

From 2012 all UK employers will be required by law to make a Qualifying Workplace Pension Scheme available to

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their employees and to auto-enrol their eligible employees into such schemes; they will also be required to pay contributions towards their employees' pensions. Some existing schemes may pass muster and count as qualifying schemes, but some won't. All existing schemes will need to be reviewed to ensure compliance with the reforms. While automatic enrolment is compulsory, ongoing membership of a pension scheme is not; employees have the right to opt-out once auto-enrolled, but may not opt-out prior to being auto-enrolled. The obligations and responsibilities laid on employers are called 'duties' by the legislation. Employers failing to comply with any of the duties laid on them by the legislation may become liable to a penalty notice.

The main duties are as follows:

- Employers **must** register (and re-register at the correct time) with The Pensions Regulator
- Employers **must** auto-enrol employees on time
- Employers **may not** use 'prohibitive recruitment conduct' (eg not employing people who intend to join the pension scheme)
- Employers **must** give all pre-determined material to employees at the appropriate times required by the legislation
- Employers **must** re-enrol employees (after a certain period) who opt-out following auto-enrolment
- Employers **must** keep records (of auto-enrolment, opt-outs, contributions deducted and monies refunded to opt-outs etc) for a prescribed period of time
- Employers **must not** induce employees to opt-out of a qualifying scheme
- Employers **must** give information on pensions to their employees at the point of auto-enrolment, but **must not** give advice
- Employers must contribute to their employees' pensions.

Clearly, now that the legislation is going ahead, all employers in the UK, from the largest to the smallest, will need to get to grips with what the legislation will require of them and ensure they have processes in place that will provide compliance.

Who does it affect?

Workers who will be eligible for pensions auto-enrolment will be those who are:

- Aged between 22 and the state pension age **and**
- Who have sufficient 'qualifying earnings' (£7,475 a year in 2011/2012 terms). It is likely that the qualifying earnings level will increase to £8,105.00 in line with the PAYE personal tax threshold for 2012/13.

These members of staff do have the option to opt out of the scheme; however, as **employers you must not:**

- Encourage your workers to opt out of the qualifying pension scheme
- Have recruitment practices that will benefit job applicants who indicate they are prepared to opt out or
- Treat a worker unfairly or put them at a disadvantage because of automatic enrolment.

If you are found to be guilty of any of the above, you are likely to be fined!

What will it cost?

To begin with, the minimum pension contribution will be **2**% of qualifying earnings (at least **1**% coming from the employer) but this will rise by October 2017 to **8**% (with at least **3**% coming from the employer).

Qualifying earnings are broadly gross earnings between £5,035 and £33,540 (in 2006/2007 terms). These figures are subject to a consultation process which was launched in December 2011 by the Minister of State, Department for Work and Pensions (DWP) Steve Webb. The likely outcome is that the qualifying earnings level will increase to £8,105.00 in line with PAYE personal tax threshold for 2012/13.

That is the pension cost, but there will also be a cost implication with regards to the administration of the scheme that should be considered.

When does it start from?

Staging dates

Each employer will be given a date from when they will be required to enrol employees automatically into a pension scheme that meets minimum quality requirements. This is known as your staging date.

- The first staging dates will be in October 2012 and will continue through to 2017
- Your staging date will be broadly based on the number of people you have in your PAYE scheme
- Employers with the largest number of workers will have the earliest staging dates
- The smallest employers will be allocated automatic enrolment dates between 1 June 2015 and 1 April 2017
- The DWP will contact you six to 12 months before your staging date
- You should receive a letter shortly from the DWP telling you when your enrolment date is and it is based on your PAYE reference. Alternatively you can find out what your staging date is likely to be by visiting the DWP website at www.tpr.gov.uk/staging.

> 'NOW THAT THE LEGISLATION IS GOING AHEAD, ALL EMPLOYERS IN THE UK, FROM THE LARGEST TO THE SMALLEST, WILL NEED TO GET TO GRIPS WITH WHAT THE LEGISLATION WILL REQUIRE OF THEM AND ENSURE THEY HAVE PROCESSES IN PLACE THAT WILL PROVIDE COMPLIANCE.'

What are the choices?

With such an important issue to deal with you will obviously need to explore the options available to you. Where employers have no schemes at present they will have to either set one up or use the default scheme called the National Employment Savings Trust (NEST). The NEST default scheme is being developed primarily for smaller companies with between one and 19 employees, but larger firms that do not establish their own schemes in time will be drafted into the NEST arrangements.

The important issue to remember is that if you use NEST, responsibility for making the relevant returns falls on you as the employer.

Other options available are Group Personal Pension schemes or occupational pension schemes for larger employers, but again responsibility for compliance rests with the employer.

A new option that has recently been launched is that of a corporate wrap. This is a combination of professional scheme that complies with the requirements laid down by the DWP and also offers a range of other employee benefits such as group life cover, private health screening, childcare vouchers etc. These employee benefits are provided by the same sort of companies that operate schemes for large employers in the UK, but now available through the corporate wrap environment. The responsibility for the scheme's compliance is taken on by the employee benefits provider along with other HR functions such as payroll if necessary.

Summary

The changes that are being brought into workplace pensions will have far-reaching effects on employers over the next few years. In essence there is a period of up to five years until these changes really bite, however, that is a relatively short period of time when you consider how to deal with wage demands over the next five years. If your total wage bill will be 8% higher due to pension costs, how do you deal with potential pay increases? As an employer myself I see this as serious issue that needs to be thought about now and discussed with your staff in order to prevent any unpleasant surprises in five years time.

It is imperative that you make the right decision on how to deal with this issue as the consequences of getting the compliance wrong can be rather expensive.

My advice to you is to not only adopt the most appropriate pension arrangement for your practice, which could be any of those mentioned above, but make sure that you either outsource the management of the scheme to your professional adviser or use something like the corporate wrap that will deal with all the relevant aspects of auto-enrolment for you. The consequences for getting things wrong are very expensive.

As an Independent Financial Adviser I can provide advice on any of the options that I have listed above. However, my preferred option would be the corporate wrap as it covers all of the areas that are required by the DWP and also offers low cost access to employee benefits that will undoubtedly improve your employment package and may help with staff retention.

I have a link via my website to a website that has a short video that very succinctly explains what the employer's responsibilities are – it's well worth watching!

Where to go for help

There are several places you can turn to for help and further information.

- You can contact me at IQ Wealth Management on 01959 571300 or email **info@iqwealthmanagement.co.uk**. Also you can look at our dedicated website **www.autoenrolementinformation.co.uk** or our normal **www.iqwealthmanagement.co.uk**
- Department of Work and Pensions website - **www.dwp.gov.uk/policy/pensions-reform**

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