

Workplace Pension Reform – Automatic Enrolment

Over the next few years, every employer will have to enrol into a workplace pension, those workers who:

- are not already in a workplace pension scheme;
- are at least 22 years old;
- have not yet reached State Pension age;
- earn more than the minimum earnings threshold (currently £10,000.00 a year); and
- work or ordinarily work in the UK (under their contract)

This process is commonly known as “Auto enrolment”.

The timing depends upon the size of the employer. Larger employers have already been included in the system and now, smaller and medium sized businesses are following. The aim is that by 2018, all employers will be subject to the new rules. However, for many small employers, the implementation date could be as close as twelve months away or, in some cases, sooner.

The pension scheme must be a qualifying scheme, meaning it must meet certain Government standards. In addition, for the first time, employers will be required by law to contribute to their employees’ pensions. This contribution will rise to a maximum of 3% of gross salary under the default rules or 4% if you choose one of the other calculation options.

A new pension scheme, NEST (National Employment Savings Trust) has been established, designed to be available to any employer who chooses to use it. This will enable all employers to provide a pension scheme for their workers, either using NEST; their own scheme or another pension provider.

Employees opting out and re-joining

Employees can opt out of their pension scheme, if they wish and, those who have opted out have the right to re-join at a later date. The employer cannot force or place duress on any employee to opt out.

In addition, the employer will have a duty to automatically enrol workers back into the scheme approximately every three years, so long as they are at least 22 years of age, below State Pension age and are earning over the minimum earnings threshold. This is to give those who have left the scheme the opportunity to reconsider their pension saving.

For these reasons, the employer must set up a scheme, if they have any employees who are entitled to join, even if they are confident that they will not take up the opportunity.

In addition, employees earning less than £10,000 p.a. have the right to ask to join a pension scheme and, the employer must enable them to do so. There are various criteria dependent upon age and salary, as to what obligations you have in this regard.

Exemptions

There are several categories of employer who can claim exemption from these new regulations.

Compulsory automatic enrolment does not apply when a company or individual is not considered an employer. This applies if you meet one of the following criteria:

- your company has only one director, with no other staff
- your company has a number of directors, where either none or only one of whom has an employment contract
- your company has ceased trading or gone into liquidation

Given the administrative burden of operating an automatic enrolment scheme, this is a valuable opt-out for small companies and, one that should not be ignored.

Next Steps

Many employers have already received the initial letter, advising their “staging date” and, requesting that they nominate a contact to receive further information. The first step is to either (i) advise the Pensions Regulator that you are not considered an employer, if appropriate (see above) or (ii) nominate yourself as the primary contact by the deadline shown on the letter.

The staging date is the date from which you must meet the new regulations.

The next step is to set up a pension scheme or, if you already have one in place, ascertain if this can be used to meet the new regulations. The government recommend this be done at least six months before the staging date.

At this stage, you need to consult a financial advisor or your existing pension provider. As accountants, Dickinsons cannot give advice on pensions or, assist in the setting up of a scheme. Neither can we advise your employees as to whether they should opt out or re-join your scheme. We can however, put you in contact with a firm of financial intermediaries, who have indicated their willingness to assist our clients in meeting their legal duties.

Conclusion

This change represents the most fundamental change in pension provision in a lifetime, it will place a compulsory administrative and financial burden on the majority of smaller employers and, it cannot be ignored.

As stated above, we are restricted in the advice we can give on this matter but, if you wish to discuss it in general terms, before approaching a financial advisor, please ask your normal Dickinsons point of contact.