



Compulsory Corporate Pensions

Following the pre-budget report on 9th December 2009, the programme for the introduction of Personal Accounts has been put back by 12 months, resulting in the start date now being October 2013. However, it is still very important for employers to be aware of their responsibilities under the legislation and to plan ahead for the additional costs that it will introduce to their businesses.

Personal Accounts – Who is accountable?

From 2013 a new pension regime will be introduced that will involve all companies regardless of size or workforce.

All companies will be required to enrol anyone age 22 and over into a Personal Accounts pension scheme with set contribution rates to be paid by both employer and employee.

Alternatively the employer can provide automatic enrolment into a comparable scheme.

There is no way around this – the employees must be enrolled into a scheme.

The Government's objective is to have employers paying in 3% of qualifying earnings and employees paying in 5% of qualifying earnings (including tax relief).

Qualifying earnings include wages/salary, commission, bonuses, overtime and certain statutory benefits between £5,035 and £33,540 per annum.* Figures set in 2006/07 and will increase in line with National Average Earnings (NAE).

The burden is on the employer to ensure that the auto – enrolment rules are followed.

If the company has a Personal Account Scheme then employees age 22 and over (but younger than state pension age) must be enrolled on the first day of their employment.

Some alternative company schemes however will be allowed to have a 3 month waiting period before auto-enrolment is compulsory.

Opt – out?

At auto enrolment the employer must provide the employee with 'sufficient information' to be able to make a decision as to whether to opt out or not.

The employee has the right to opt-out BUT they can only do this once they have been enrolled into the scheme.

Payroll deductions for all qualifying employees must commence even if the employee has indicated that their intention is to opt out.

Where deductions have been made and the employee subsequently opts out it is the responsibility of the employer to ensure that contributions are refunded.

There will be rules in place with regard to the timescales and the duties which the employer must adhere to in this process.

If an employee does choose to opt out then the employer must automatically enrol them again every 3 years

A failure to comply with the requirements could result in up to a £50,000 fine and potentially up to 2 years imprisonment for wilful non compliance.

It will be illegal for an employer to encourage their employees to opt out of the pension scheme.

Issues

- If a company pension scheme is already in place which is more generous than the rates proposed then an influx in new entrants will lead to increase pension costs to the employer. The existing scheme will also need to meet the requirements for auto - enrolment.
- Employers who could not afford to pay into a pension for their employees will have to meet the contribution costs for those employees who choose to remain in the scheme.
- It is not only the increased costs associated with the pension contributions that will need to be taken into consideration, but also the administrative burden. Even if a company had employees who all opted out this process would still need to be administered by the company – at a cost.

Additional administrative processes – examples

- Obtaining advice from external sources regarding schemes and costs
- Discussing pension schemes with new providers
- Communicating the regime to employees
- Upgrading or implementing systems to deal with auto-enrolment
- Adjusting payroll systems to deal with contributions and refunds

If you would like to know more about how these changes will affect you, as well as how to prepare for these changes then please don't hesitate to contact us.

This information has been supplied by Cullen Financial Planning Limited.