



Pension Reform, the employer duties and NEST

Key facts

Pension reform

The reason for change is simple, there will be more pensioners in the future and those pensioners will live longer. This will put a massive strain on the State pension system.

To alleviate this burden, the Pensions Acts 2007 and 2008 make changes to the Basic State Pension, the State Second Pension and introduce new employer duties for pensions.

From October 2012 UK employers will be required to automatically enroll employees into a 'qualifying workplace pension scheme'. This auto enrolment could be to your existing company pension scheme if it meets certain criteria. If it does not meet the criteria or if you do not operate a company pension scheme then your employees will be enrolled into NEST, a simple, low-cost pension scheme being introduced by the Government.

The employer duties

From October 2012, employers will be **required by law** to:

- automatically enrol all their eligible employees not already in a good quality pension scheme into a Qualifying Workplace Pension Scheme (QWPS) **on the day the employee becomes eligible**, and
- pay contributions for every employee who does not opt-out of the QWPS.

Timetable

The employer duties will be staged in over 4 years from 2012. Larger employers will have their duties imposed first, smaller employers last. Any employer with less than 50 employees will have their staging date set depending on the last two digits of their PAYE reference number.

Size of employer

120,000 – 800
 799 – 250
 249 – 50
 Less than 50
 New businesses that start up after October 2012

Staging date

Over 12 dates from 1st October 2012 to 1st October 2013
 Over 3 dates from 1st November 2013 to 1st February 2014
 Over 4 dates from 1st April 2014 to 1st July 2014
 Over 18 dates from 1st August 2014 to 1st February 2016
 Over 5 dates from 1st March 2016 to 1st September 2016

The costs

The amount of contributions that must be paid in order for a scheme to be treated as a QWPS is being phased in as follows:

Date	Total minimum contribution %	Minimum employer contribution %	Minimum difference to be made up by employee % (gross)
October 2012 to September 2016	2%	1%	1%
October 2016 to September 2017	5%	2%	3%
October 2017 onwards	8%	3%	5%

The contributions will be based on a percentage of band earnings between £5,715 and £38,185 (qualifying earnings) at 2010/2011 levels. These amounts will be increased in line with earnings to 2012 and beyond.

Quality Qualifying Workplace Pension Scheme (QQWPS)

Employers can avoid much of the administration burden associated with automatic enrolment by setting up a QQWPS where:

- the total minimum contribution is 11% of qualifying earnings, of which
- at least 6% must come from the employer,
- there is no option to phase in contributions, and,
- automatic enrolment dates can be postponed up to 90 days **allowing a 'sweep up' of eligible employees all at once at the employer's convenience.**

Eligible employees

All employees will have to be auto-enrolled unless:

- they are already in a qualifying workplace pension scheme,
- they are under the age of 22,
- they are over the State Pension Age, or
- they earn less than £7475 a year.

*this is the income tax threshold for 2010/2011 which is the indicated threshold for auto-enrolment and will adjust each year.

Employees can only 'opt-out' once they have been auto-enrolled. Non-eligible employees must be given the option of opting in to pension saving.

Auto-enrolment is the responsibility of the employer, not the Government or the pensions industry. The Pensions Regulator will oversee employer compliance and has the power to fine employers for non-compliance.

National Employment Savings Trust (NEST)

Employers who do not have, or who will not set up, their own QWPS (Qualifying Workplace Pension Scheme) will be obliged to use NEST. This scheme is designed to be low cost and is specifically aimed at low to medium earners. There will be certain restrictions applying to NEST:

- There will be a general ban on transfers in or out until at least 2017
- There will be an upper contribution limit (currently set at £3,600 each year)
- NEST will be a trust based Defined Contribution occupational pension scheme
- NEST will have limited investment options with a default fund.
- NEST will have an annual management charge of 0.3% per annum
- The initial charge will be 1.8% of each contribution to cover start up costs

Do you need help or advice?

Please call Cade & Co LLP Independent Financial Advisers on 01604 832932 for a Free initial assessment of how NEST will affect you and get a plan for the actions you should take to get the best value for your business and your employees.

The information provided is based on our current understanding of the relevant legislation and regulations and may be subject to alteration as a result of changes in legislation or practice. The information provided is based on our current understanding of the Pensions Acts 2007 and 2008.

