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FINANCIAL PLANNING



Automatic enrolment, the employer duties and NEST

Key facts

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Pension reform

There will be more pensioners in the future and on average 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.

The Pensions Act 2008 laid out the foundations for automatic enrolment however when the new coalition Government came into power, a review group was set up to examine automatic enrolment. This group presented its recommendations to the Department for Work and Pensions in October 2010. The details laid out in this flyer are the current proposals but further reviews are planned and may therefore change in future.

The employer duties

During a phased implementation from October 2012, employers will be **required by law** to automatically enrol all their 'eligible employees' into a Qualifying Workplace Pension Scheme (QWPS) **AND** make contributions to their plan.

Eligible Employees are:

- Those who are aren't already active members of a qualifying scheme; and
- Aged between 22 and State Pension Age, and
- Earn over the Income Tax Personal Allowance (£7,475 in 2011/12)

The Qualifying Scheme can be:

- A company pension scheme, if it meets certain contribution criteria
- The Government alternative, National Employment Savings Trust (NEST)

Only employees can 'opt-out' but will be auto-enrolled every 3 years.



Contribution Levels

Contributions are to be phased in from the staging date to October 2017:

	Employer	Employee	Total
Up to October 2016	1%	1%	2%
Up to October 2017	2%	2%	4%

From October 2017 a qualifying scheme must meet **one of four** contribution criteria:

Earnings	Employer	Employee	Tax Relief	Total
'Qualifying Earnings'	4%	3%	1%	8%
'Total Earnings'	3%	3%	1%	7%
More than 85% of pay pensionable	3%	4%	1%	8%
Less than 85% pay pensionable	4%	4%	1%	9%

- Qualifying earnings are currently £5,715 to £38,185 (2011/12 tax year)

'Pensionable pay' can be defined by the employer. It will be the pay that pension contributions are based on but must be at least basic pay. The employer can decide whether to add other earnings such as bonus, commission, overtime etc



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. Full details of every staging date can be found on the Pensions Regulator website at <http://www.thepensionsregulator.gov.uk/pensions-reform/staging-date-timeline.aspx>.

Size of employer	Staging date
800+	From 1 st October 2012 to 1 st October 2013
799 – 250	From 1 st November 2013 to 1 st February 2014
249 – 50	From 1 st April 2014 to 1 st July 2014
Less than 50	From 1 st August 2014 to 1 st February 2016
New businesses with first PAYE income payable from 1 April 2012	From 1 st March 2016 to 1 st September 2016

Penalties for non-compliance

There are stringent penalties for not enrolling staff by the allocated staging date:

Stage 1 – ‘Warning’

Stage 2 – ‘Wake-up call’ – fixed penalty of £400

Stage 3 – ‘Persistent Offender’

500+ Employees	£10,000 per day
250-499	£5,000 per day
50-249	£2,500 per day
5-49	£500 per day
1-4	£50 per day



National Employment Savings Trust (NEST)

From the employer's staging date, unless they have a qualifying company operated scheme, employers will have to enrol their eligible employees into NEST.

NEST is aimed at lower earners who don't have access to a good company scheme. It is designed to be a simple, low cost option but, under current rules will be restrictive on a number of issues including; a ban on transfers in or out, an upper contribution limit, in today's terms of £4,271 each year, limited retirement options and limited investment options.

What this means for Employers?

NEST may appear to be a good thing, a simpler way of meeting the new requirements than running or setting up a Company Scheme. However it should be noted that NEST is unlikely to have much appeal to moderate or high earners or workers who want a greater choice of investment or wish to make high contributions above the NEST limit. Employers setting up their own scheme could find it to be a more effective benefit and retention tool for staff.

The additional costs of the pension reform will not only come with the contributions but also the administrative cost of registering and meeting the enrolment duties. If employer requirements are not met, **there are hefty fines for non-compliance!**

Before making any decision with regards a pension scheme, employers should take independent advice and chose the most suitable form of pension provision to suit the company.

The changes are less than 12 months away – don't leave it too late!

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, the Pensions Act 2008 and 'Making automatic enrolment work – A review for the Department for Work and Pensions', Paul Johnson (Frontier economics and Institute for Fiscal Studies), David Yeandle (Engineering Employers' Federation), Adrian Boulding (Legal and General), October 2012.





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