



Pension Reform and NEST: An Overview

While the full proposals which include reforming the State Pension aim to make it simpler and more generous and extending people's working lives, the key reforms for employers relate to the Government's ideas for making it easier for more people to save for retirement.

SUMMARY OF PROPOSED PENSION REFORMS

The Government estimates that about seven million people are currently under-saving for retirement. As a result, it is putting the onus on employers to help encourage more people to save:

- You'll be required to automatically enrol all eligible workers* into any 'qualifying pension scheme'. This could be your own Company Scheme if it meets certain criteria or NEST (National Employment Savings Trust), a simple, low-cost pension scheme being introduced by the Government.
- You'll be required to contribute at least 3% of each worker's eligible earnings which is intended to incentivise them to join. Their own contributions and tax relief will be added to this to meet a minimum 8% contribution rate.

* A 'worker' is a wider category than just employees and can include some contractors or agency workers. As a general rule, if you have to pay the national minimum wage to someone or they are working under an apprenticeship, they are a worker.

ENSURING CONTRIBUTION LEVELS MEET THE MINIMUM REQUIREMENTS

There is a certification process that will assess the auto-enrolment duty for employers who calculate their pension contributions on a definition of pensionable pay other than qualifying earnings. These are:

- If the scheme provides for minimum contributions for each jobholder of at least 9% (4% minimum employer contribution).
- If there is a minimum contribution of at least 7% for each worker, and 100% of pay is pensionable.
- If contributions for each jobholder are at least 8% (3% employer minimum) and pensionable pay is at least 85% of total pay.

AUTOMATIC ENROLMENT AND COMPULSORY CONTRIBUTIONS

From sometime between 2012 and 2016, you will have to automatically enrol all eligible workers in to a qualifying pension scheme and boost each worker's contributions with contributions of your own.

Workers eligible for automatic enrolment will be:

- Those who aren't already in a qualifying pension scheme.
- Working in Great Britain.
- Aged between 22 years and State Pension retirement age and earning over the standard Personal Allowance for Income Tax (£7,475 in tax year 2011/12).

Contact us and speak to a Partner for more information on these issues



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AUTOMATIC ENROLMENT AND COMPULSORY CONTRIBUTIONS CONTINUED...

The qualifying scheme may be your own Company Scheme, if it meets certain criteria or NEST. The important point here is that the Government has set a minimum contribution for these qualifying schemes:

Minimum Contribution	Employee Pays	Tax Relief	Employer Pays
8%	4%	1%	3%

Contribution Rates Shown are percentages of Eligible Earnings

While eligible workers can opt out, for those choosing to contribute their 4% plus 1% tax relief, you will have to contribute at least 3% of their 'qualifying' earnings (basic salary plus commissions, bonuses and overtime between £5,715 and £38,185 a year). This will apply immediately to all new eligible workers and those not currently in a qualifying scheme.

Workers between ages 16 and 21 or over state pension age but under 75 won't be automatically enrolled, but can ask to be enrolled and so can those earning between £5,715 and the threshold for automatic enrolment. Workers earning under £5,715 can also ask you to arrange a pension for them, but in that case you won't have to pay in and the pension scheme doesn't have to be a qualifying one.

WHAT THIS MEANS FOR YOU

On the face of it Pension Reform and particularly the introduction of NEST could appear to be a good thing – a simpler way of meeting the new requirements than running, or setting up, a qualifying Company Scheme. Collection of contributions is expected to be aligned with common payroll processes, and much of the administration involved in running your own scheme would be removed.

If you are operating a Company Scheme and wanted to close it in favour of this, you would have to check the contractual rights your employees had before doing so.

However, contractual rights apart, it should be noted that NEST is unlikely to have as much appeal to moderate and higher earners, or to workers looking for a greater degree of choice and higher contribution levels. Keeping or setting up your own qualifying scheme could be a more effective benefit and retention tool for a broader range of staff.

HOW CAN WE HELP?

We can tell you:

- What date you must have either NEST or a qualifying pension scheme with auto enrolment set up
- Who on your current payroll and your future employees you have to enrol
- How much it will cost
- How you could fund the contributions more efficiently
- What your options are for auto enrolling
- Test your current scheme to see if you qualify for an exemption and if not what steps you must take between now and the date that you are required to operate the scheme

AND

- What the penalties are for non compliance

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