Pension Reform – Obligations on Employers

The full proposals under the Pensions Act 2008 include improvements to the State Pension and extending people's working lives. However, the key reforms for employers involve making it easier for more people to save for retirement.

All employers will have to enrol automatically all eligible workers into any qualifying pension scheme. This could be an existing company scheme (if it meets, or can be changed to meet, the necessary criteria) or NESTs (National Employment Savings Trusts), a simple low-cost pension scheme being introduced by the government.

There will be a minimum overall contribution rate of 8% of each employee's qualifying earnings, of which at least 3% must come from the employer. The balance is made up of employees' contributions and associated tax relief.

Eligible workers

Although we talk about 'employees', strictly the relevant description is 'workers'. Workers eligible for automatic enrolment are:

- those who aren't already in a qualifying pension scheme
- aged between 22 years and State Pension Age
- earning over the income tax threshold (£7,475 for 2011-12)
- working or ordinarily working in the UK

Qualifying earnings

Qualifying earnings cover basic annual salary plus commissions, bonuses and overtime between the national insurance earnings threshold (£7,225 for 2011-12) and an upper limit (£38,185 for 2010-11, uprated in line with earnings). This applies immediately to all new eligible workers and those not currently in a qualifying scheme.

Auto-enrolment

Auto-enrolment should take place within 3 months of a new worker commencing employment. Eligible workers have the right to opt out, but not until they have been auto-enrolled.

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Workers aged between 16 and 21 or over State Pension Age but under 75 or earning between £7,225 and £7,475 won't be enrolled automatically, but can ask to be enrolled (opting in).

Low-earning workers can also ask employers to arrange a pension for them, but it does not have to be a qualifying scheme and the employer does not have to contribute.

Staging dates

Auto-enrolment is being phased in between 2012 and 2016 (larger employers first, smaller employers last). Employers with less than 50 workers will have their staging date set over 18 dates between 1 August 2014 and 1 February 2016, depending on the last two digits of their PAYE reference number. To check for exact dates see: www.thepensionsregulator.gov.uk/pensions-reform/duty-dates-timeline.aspx

Phase	Total	Employer pays	Employee pays	Tax Relief
1 (to October 2016)	2%	1%	0.8%	0.2%
2 (to October 2017)	5%	2%	2.4%	0.6%
3 (Full implementation)	8%	3%	4%	1%

NESTs

From the relevant staging date, unless employers are following the Company Scheme route, they will have to enrol each eligible worker into a NEST. These are designed to be a simple low-cost way for low to moderate earners to save, based on the following features:

- Minimum contribution 8% (for split, see table above)
- *Maximum contribution £4,271 (2010-11, rising in line with earnings) a year*
- *1.8% charge to cover NEST's start-up costs
- 0.3% annual management charge
- Auto-enrolled into default fund, but limited choice of other funds available

**it is intended that this charge will be removed once the set up costs are covered*

Compliance

Employers will have to register how they will deal with auto-enrolment, comply with the opt-out rights and make payments on time.

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