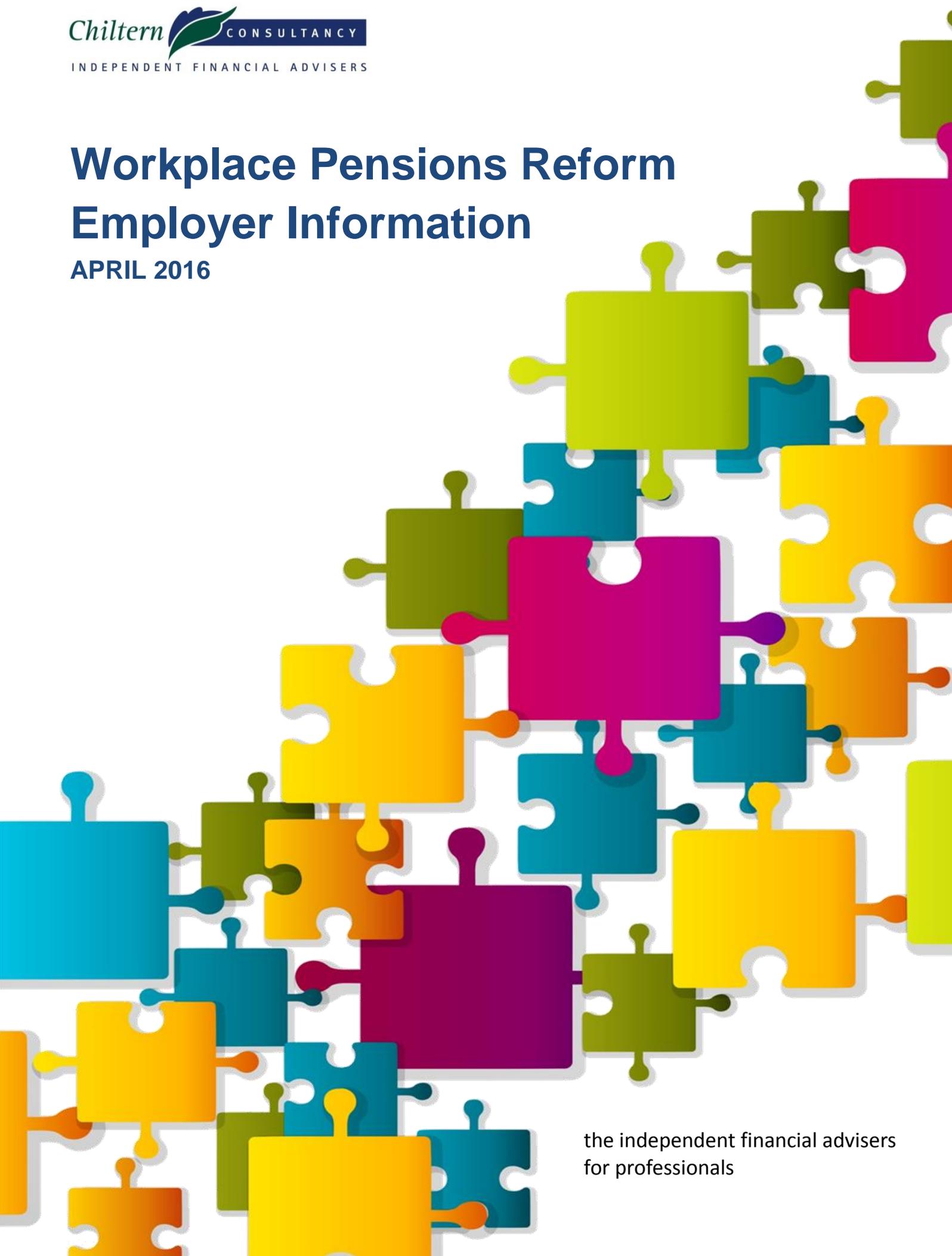


Workplace Pensions Reform Employer Information

APRIL 2016



the independent financial advisers
for professionals

Introduction

The pensions reform legislation, introduced in 2012, will have wide-ranging effects across every field of business. You can prepare now by gaining a thorough understanding of the changes and their potential impact upon you and your company. This guide summarises the main changes, what they mean to you and how best to prepare for them.

Chiltern Consultancy Ltd has helped a large number of companies review their existing employee benefits offering and/or implement new schemes for the benefit of their staff. With the new pension legislation in mind, we can help guide you through the options available and recommend a suitable and competitive solution to be offered to your staff.

Summary of proposed reforms

While the full proposals include reforming the State Pension to make it simpler and more generous and extending people's working lives, the key reforms affecting employers relate to the Government's ideas for making it easier for more people to save for retirement. The Government estimates that about 9 million people are currently not saving enough for retirement. As a result, it is putting the onus on employers to help encourage more people to save:

- You will be required to automatically enrol employees into a 'qualifying pension scheme'. This could be your own company scheme if it meets certain criteria or a new qualifying scheme. This new scheme may be sourced from a traditional pension provider or one of the new entrants to the pension arena.- see "Providers". The forerunner of these new entrants being NEST - a simple, low-cost pension scheme being introduced by the Government.
- You'll be required to contribute a minimum of 3% of each employee'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.

The Government recognises that these reforms continue to place employers at the heart of pension provision and that they can only be successful with your support. It is therefore proposing key measures designed to minimise the burdens on you:

- Compulsory employer and employee contributions will be phased in.
- Simple, straightforward, qualifying criteria for existing Company Schemes, meaning many existing schemes will meet them, although perhaps with minor changes.
- A 'light-touch' but effective compliance regime for new employer duties such as automatic enrolment.

Read on for full details of these changes, and what they mean for you.

Automatic enrolment and compulsory contributions

The requirement

From sometime between October 2012 and February 2018 (depending on the size of business and type of scheme), you will have to automatically enrol all eligible employees in a qualifying pension scheme and make contributions to their plan.

Employees eligible for automatic enrolment will be:

- those who aren't already active members of a qualifying scheme; and
- are aged between 22 years and the State Pension age; and
- have earnings above the threshold for eligibility (£10,000 in 2016/17)

Those who do not qualify as an eligible jobholder, can either opt in to the pension scheme or ask to join.

Monthly gross earnings	Age			Weekly gross earnings
	From 16 to 21	From 22 to SPA*	From SPA to 74	
£486 and below	Has a right to join a pension scheme ¹			£112 and below
Over £486 up to £833	Has a right to opt in ²			Over £112 up to £192
Over £833	Has a right to opt in	Must be enrolled ³	Has a right to opt in	Over £192

Figures correct as of 2016/2017 *SPA = state pension age

1 Has a right to join a pension scheme

If they ask, the employer must provide a pension scheme for them, but the employer doesn't have to pay any contributions into a pension scheme

2 Has a right to opt in

If they ask to be put into a pension scheme, the employer must put them in a pension scheme that can be used for automatic enrolment and pay regular contributions

3 Must be enrolled

The employer must put these members of staff into a pension scheme that can be used for automatic enrolment and pay regular contributions. The employer doesn't need to ask for their permission. If a member of staff gives notice, or the employer gives them notice, to leave employment before the employer has completed this process, the employer has a choice whether to enrol them or not.

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

Minimum Contribution	Employee pays	Tax Relief	You Pay
8%	4%	1%	3%

While employees 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.

It is worth noting that the proposed pension contribution levels will be phased in over a period of 6 years to April 2019, please see section 'What this means for you'.

Contributions are payable on qualifying earnings, the minimum threshold for which is linked to the Lower Earnings Level for NI contributions (£5,824 in the 2016/17 tax year) and the Upper Earnings Level of £43,000 in current prices. This will apply immediately to all new eligible employees and those not currently in a qualifying scheme.

Employees between ages 16 and 21, or over state pension age but under 75, can ask to be enrolled, and you will have to pay in for them. Employees without qualifying earnings can also ask you to arrange a pension for them, but in that case you won't have to pay in.

It is possible for you to pay more and the employee to pay less, as long as the total contribution is at least the minimum. For example, from April 2019, you can pay the full 8% and your employee does not need to make any contribution.

What this means for you

Research has shown that auto-enrolment is one of the most effective ways of triggering pension scheme membership and contribution. So, it is highly likely that your business will incur significant additional costs through auto-enrolment. The increase will be higher for those who don't currently offer a company scheme or who don't currently contribute to it for their employees.

The Government has introduced auto-enrolment in stages between October 2012 and February 2018, starting with the largest employers. It also plans to phase in the level of compulsory employer contributions rising from 1% initially to 2% in April 2018 and 3% from April 2019 onwards. But the requirements are still something to be aware of.

	Employee Pays	Employer Pays
Before 5 April 2018	1%	1%
6 April 2018 – 5 April 2019	3%	2%
From 6 April 2019	5%	3%

If you have a defined benefit or hybrid scheme, the staging process will not apply as you will not be able to pay reduced contributions and phase them in gradually. It is proposed that these schemes will be brought into the legislation at the end of the staging period.

Qualifying company schemes

The requirement

If you want to use your own Company Scheme to meet the new requirements, it will have to meet certain qualifying criteria.

The Government has designed simple qualifying criteria for Company Workplace Schemes.

- Does it permit auto-enrolment?
- Are employees auto-enrolled within 90 days of joining the company?
- Does it have a default investment fund?
- Does it deliver a minimum accrual rate or minimum contribution?

Contracted Out Final Salary Schemes	Contracted-In Final Salary Scheme	Money Purchase, Stakeholder, & GPP Schemes
Minimum accrual rate of 1/80 of pensionable earnings.	Minimum accrual rate of 1/120 of pensionable earnings.	Minimum contribution of 8% of all Earnings between the minimum threshold of £5,824 and an upper limit of £43,000 (in current prices) with at least 3% paid by the company.

If your company scheme passes these relevant criteria, then it will qualify and you do not need to offer a new qualifying scheme.

Where you calculate contributions based on different rates, earnings bands or definitions of pensionable pay, your scheme will still be 'qualifying' provided the contributions meet the following criteria:

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

Providers

The requirement

From your automatic enrolment staging date, unless you are already operating a company scheme that meets the required criteria, or you set one up, you will have to enrol each eligible employee into a new qualifying scheme.

In addition to the traditional pension providers a new generation of providers have emerged in response to the introduction of Workplace Pensions. The first of this new generation was established by Government. This provider is known as NEST. It is designed to be a simple, low-cost way for these individuals to save, and has a number of features that ensure it remains suitable for these individuals.

- A combination charge made up of an annual management charge (AMC) of 0.3% and a contribution charge of 1.8% to meet the costs of establishing the scheme (it is intended that this charge will be removed once the set up costs are covered).
- A limited choice of investment funds and a default fund for those who do not make a choice.
- An annual contribution limit of £4,700 a year. It has been recommended that this limit be removed in 2017 although consultation is taking place to remove it earlier.

The scheme will operate as a centralised scheme run by a not-for-profit trustee corporation called NEST Corporation. Like other company schemes it will be regulated by the Pensions Regulator.

Since the launch of NEST other new generation providers have emerged building on the NEST example.

What this means for you

On the face of it the new generation providers appear to be a good thing – a simpler way of meeting the new requirements than running, or setting up, a qualifying company scheme. However, it should be noted that the NEST scheme is unlikely to have as much appeal to moderate and higher earners, or to employees looking for a greater degree of choice and higher contribution levels. Some of these disadvantages have been removed by the later entrants to the market. Keeping or setting up your own qualifying scheme could be a more effective benefit and retention tool for a broader range of staff.

New compliance requirements

The requirement

Whichever qualifying scheme is adopted, you will have additional regulatory requirements to be aware of.

The requirements are being introduced to ensure that employees' rights are safeguarded. This will stop non-complying employers achieving any competitive advantage, and should minimise the need for compliance action. They're designed to manage three key areas of risk.

1. **Risk to auto-enrolment:** you'll be required to register with the Regulator how you will meet your enrolment duties for each of the PAYE schemes you run. Failure to register will be detected by comparing records with HMRC.
2. **Risk to the opt-out process:** you'll be required to comply with new statutory employment rights. These will include the right of employees not to be dismissed on grounds related to pension membership and restrictions on agreements which limit your new duties and employees' rights.
3. **Risk to pension payments:** your payments will be monitored by the pension scheme trustees or administrator, who will be required to report any failures to the Pensions Regulator (essentially the same as the current situation with workplace pension schemes).

What this means for you

This proposed new regime will place two potential additional costs on your business (in addition to the costs associated with increased membership and contributions).

1. The first will be the administrative cost of registering and meeting your new enrolment duties. There are detailed rules covering what you have to tell the Regulator and your employees and also the processes for enrolling staff and dealing with opt-outs.
2. The second cost will be incurred only by anyone fined by the Regulator in the event of non-compliance; see following table.

Fixed Penalty Notices

If you fail to comply with a Statutory Notice or if there is sufficient evidence of a breach. This is fixed at £400 and payable within a specified period.

Escalating Penalty Notice

If you fail to comply with a Statutory Notice. This penalty has a prescribed daily rate of £50 to £10,000 depending on the number of workers you have.

Maximum Daily Fine

Fixed daily rate of £5,000 if you have 250 workers or more

Civil Penalty

For case where you fail to pay contributions due. Financial penalties of up to £5,000 for individuals and up to £50,000 for organisations

Court Action

Civil action through court to recover penalties. Prosecution for employers who fail to comply with their duties.

The Proceeds of Crime Act 2002 permits the confiscation of goods in cases of conviction and restraint of assets during criminal investigations.

Third Party Compliance Notice

Which is not complied with, can lead to a penalty with a prescribed daily rate of £200.

What to do next

Now is the time to start making preparations for the changes. Here are a couple of steps to help you start investigating the impact on your business and making plans.

Step 1: Identify the potential financial impact of the new legislation on the business

There are a number of specific issues which could have a financial impact on your business, depending on how close your current pension scheme is to the new requirements:

- **Contribution rate**

The minimum contribution rate (at the end of the phasing in period) will be 3% of qualifying earnings for employers, and a total of 8% including employee contributions and tax relief.

- **Qualifying earnings**

Contributions are payable on qualifying earnings, the minimum threshold for which is linked to the Lower Earnings Level for NI contributions (£5,824 in the 2016/17 tax year) and the Upper Earnings Level of £43,000 in today's prices. All earnings are covered including overtime, bonuses, commission, etc. Current arrangements typically don't include these extras, but generally include full salary (i.e. including earnings above and below the qualifying earnings specified in the new legislation). This is likely to produce a contribution above the minimum in the large majority of cases, but may not for a few employees who receive a substantial proportion of income from the extras. For them, you may have to make additional payments.

- **Waiting periods**

Most employer pension arrangements are only open to staff after they have been employed for a period, because a proportion may leave employment in the early months. There is a three month waiting period before an eligible employee needs to be automatically enrolled. Employees can opt in during this period.

- **Effect of automatic enrolment**

It is likely that automatic enrolment will substantially increase membership of many pension arrangements.

Step 2: Consider the options available to you

If you are faced with significant extra costs as a result of the legislation there are several options you could consider to minimise the impact on your business:

- Consider gradually increasing your existing qualifying scheme membership if possible. This will help avoid a sudden increase in costs due to auto-enrolment and compulsory contributions. We can help you do this with a range of worksite promotional material.
- Offering salary exchange (also known as salary sacrifice) can reduce costs by deducting the employee's contribution from their salary before tax and National Insurance, saving on National Insurance contributions for both the employee and employer.
- Consider the profile and needs of your employees:

Will a low level of fund choice be seen as an advantage or disadvantage by you or your employees?

Will a basic service be acceptable to you and your employees?

How many staff would exceed the contribution limit of £4,700 (in today's terms) for the NEST scheme? (It has been recommended that this limit be removed in 2017 and it is already possible to exceed this level with other new generation providers).

Taking these questions into account, the profile of employees, and what would best suit their needs, it may be felt that a NEST type scheme would suit the needs of some employees, for example where there is a population of employees with a high turnover rate, while other employees within your business may be more suited to a high quality pension scheme. Where this is the case, it may be appropriate for you to contribute to two separate schemes.

The following table summarises the main features and services of the NEST scheme and compares these to company schemes. Other new generation providers will differ in some significant ways.

	The NEST Scheme	Traditional provider schemes	
		Contract based pension schemes	Trust based pension schemes
Contribution limits	The scheme is targeted at low to moderate earners who don't currently participate in a workplace pension. In order to focus on this market there will be a contribution limit of £4,700 (in today's terms). It has been recommended that this limit be removed in 2017.	No maximum limit, although schemes can normally only accept employee payments which are eligible for tax relief. From 2016/17 pension contributions will be subject to the annual allowance £40,000.	
Transfers	Transfers in and out of the scheme are not allowed, except at retirement. These restrictions are expected to be revisited in 2017.	Transfers can usually be made to and from another pension plan.	
Charges	NEST will initially have a combination charge made up of an annual management charge (AMC) of 0.3% and a contribution charge of 1.8% to cover the costs of establishing the scheme.	Flexible charging structures are available.	
Investment options	Default fund linked to retirement date but members can select from other funds i.e. Higher Risk, Lower Growth, Ethical, Sharia and Pre-Retirement.	Employees can generally choose from a range of funds with different risk profiles. Risk based investment strategies may also be available and/or lifestyling (i.e. funds will be switched to more conservative funds closer to retirement).	
Retirement options	The default retirement age will be the State Pension Age, although members can choose another date from age 55 onwards. Retirement benefits cannot be phased.	Members can choose a retirement date from age 55 onwards and options are often available for benefits to be phased.	
Refunds	None allowed.	Employer and member can have their contributions refunded within the first two years' pensionable service.	
Waiting period	3 month waiting period before an eligible employee needs to be automatically enrolled. Employees can still opt in during this period. This is a benefit to employers who won't have to enrol staff who leave after a very short period	3 month waiting period before an eligible employee needs to be automatically enrolled. Employees can still opt in during this period. This is a benefit to employers who won't have to enrol staff who leave after a very short period.	
Salary sacrifice	Supports salary sacrifice.	Salary sacrifice is becoming more popular for private pension schemes, particularly in the current economic climate with employers and employees looking to cut costs. Both employer and employee support is provided.	
Employer and employee support	Single level of service for all employers and employees. Provision of information will generally be through e-channels, which could include the internet, email, SMS (text), telephone IVR (automated service), and future digital platforms.	A wide range of services, often tailored to suit the needs of the employer. Advisers and/or providers normally provide ongoing monitoring of the scheme and services to ensure the scheme continues to meet the needs of both the employer and employees.	
Employee communications	Individual online account for members and communication through e-channels.	A wide range of communication material is available, usually both on and offline. Often this can be customised to suit the needs of the scheme.	
Advice	Can seek individual advice, for which a fee will normally be charged.	Company can arrange for scheme adviser to provide advice. Costs can be paid by employer and/or employees.	

How we can help

As well as updated information on the legislation we also provide guidance and tools to help ensure your business is fully prepared. If you are taking this opportunity to review or promote your employee benefits we can also help.

Issues employers may consider are:

- Why do you wish to offer a contributory pension scheme, and what do you hope to gain from it?
- Do you want professional advice?
- What are the charges?
- What are the investment options?
- Is online access important?
- What admin can you cope with in house, would you prefer to outsource?

We can help guide you through the options available and recommend a suitable strategy to ensure that you remain compliant with the legislation whilst offering a competitive and attractive pensions benefits offering to your staff.

Our company pension proposition is designed to meet the needs of your business and your employees and focuses on service, technology, investment expertise and marketing consultancy.

- On-call team to handle all types of technical and/or communication issues.
- Dedicated, ongoing member communications including a personalised, enrolment pack.
- Advice pertaining to investment options to create a bespoke portfolio.
- Introduce the benefits of salary exchange and potential cost saving offered by this arrangement.

**PLEASE NOTE THAT CONTENTS OF THIS PAPER ARE
SUBJECT TO CHANGE**

Correct as of 20 April 2016

To arrange an informal, no obligation meeting at home,
your workplace or at our office in High Wycombe, please contact us

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