# PENSIONS: THE NEW LANDSCAPE

When it comes to pensions auto-enrolment – the Government's plan to get us all saving enough to be able to pay for our old age – do you know what it means for you as an employer?

Words **Adam Bernstein** Artwork **Elizabeth Percival**

Pensions auto-enrolment has been running for four years now. It started with the largest of employers and the process, which has monthly deadlines, won't be complete until February 2018 when the smallest of firms will be part of the regime. Auto-enrolment is taking time to bed in but the signs seem to be encouraging.

## The system

Auto-enrolment is compulsory for all employers and even impacts those with just one employee. As the name suggests, employers must automatically enrol employees who meet the eligibility criteria, even if they later decide to opt out of the scheme. In essence, both employers and employees contribute towards their pensions, and to be eligible employees need to be aged between 22 and the state pension age (which is rising over the next few years – visit http://tinyurl.com/newdkd6 for more detail) and currently earning £10,000 or more a year. The contribution rates are set low for the moment but are going to rise. At present employees pay in 1% of earnings with employers contributing another 1%. But by 2019, employees will be paying in 5% with employers adding another 3%.

What many employers seem to misunderstand is that the regime is overseen by the Pensions Regulator that has, and is exercising, powers with some very sharp teeth; non-compliance can lead to escalating fines of £50 to £10,000 per day – firms with up to four employees will pay £50 per day, those with five to 49 employees will pay £500 per day. To illustrate the point, the Pensions Regulator outlined its compliance activity in a report issued in April 2016. It said that it had issued 7,834 Compliance Notices, 2,234 £400 fixed penalty notices and 127 escalating penalty notices since the start of auto-enrolment. Employers, if they don't already know their staging date – the date when they're due to join the scheme – should ▶

## The process so far: Kitchens International

» Stacey Lauder, HR manager for Kitchens International, says the company has had to comply with the legislation since 1 October 2014. But despite the compulsion, she says the overall experience has been good: "With almost 60% of our staff aged under 35, auto-enrolment into a workplace pension has been a very positive and, importantly, hassle-free process, for employees to save for their retirement"

» Statistically speaking, the firm has done well as 89% of employees are enrolled in the workplace pension, only 6% have opted out, while the 5% that don't meet the auto-enrolment criteria have been advised that they may request to join the scheme

» Lauder says the process has been a learning curve: "The system was quite confusing to begin with, but understanding is improving with time," she says, adding: "On the whole, our pension provider's online systems are helpful when calculating contributions and identifying eligible, entitled and non-eligible jobholders. However, I believe there is too much manual data entry, which I feel could be reduced by financial service/payroll software providers working together to ensure systems' compatibility"

» She believes that the online auto-enrolment support and language used "could be made significantly more user friendly and perhaps more visually attractive for those with little financial systems experience"

» Kitchens International is yet to carry out automatic re-enrolment, to be completed next year, but Lauder is "hopeful the pension provider will be able to offer practical support"

▶ contact the Pensions Regulator with their PAYE reference code.

While many employers are now in the regime, albeit with cajoling in certain instances, they need to understand that their responsibilities are ongoing. Duties include continuing to enrol staff as they become eligible whether they are new joiners, have turned 22 or have a pay rise that takes them over the pay threshold. Furthermore, employers need to continue to administer staff requests to join or opt out of the pension scheme while also paying sufficient contributions. But more likely to catch out employers is the need to certify every 18 months that they have met their auto-enrolment responsibilities and have re-enrolled all staff every three years and have updated the Pensions Regulator of this.

Looking to the future, employers also need to keep an eye on any changes that the Government brings in, especially to the rates that employer and employee have to pay in.

## Options for employers

There are a number of options for employers that will satisfy the Pensions Regulator. If the firm already has a pension scheme – often known as a 'stakeholder pension' – the employer can continue to use it. However, it's important to check with the provider that it can be used to meet the auto-enrolment requirements. If the existing scheme cannot be used it will then be a case of choosing a scheme that is permissible. The choice is then to select a scheme either through an advisor or to self-select without advice. For the former, an accountant may be able help find an appropriate scheme. However, a financial advisor may be a better option and the Money Advice Service Retirement Advisor Directory (which can be found here: https://directory.moneyadviceservice.org.uk/en) has a searchable list of advisors that are regulated. No matter what the choice is, it's important to find someone authorised by the Financial Conduct Authority.

For those that want to self-select, there are a number of schemes that have told the Pensions Regulator that they are open to small employers; details can be found here: http://tinyurl.com/hzfkkk5. It's important, whichever route is taken, to understand all the costs.

## Opt out

Around one in 10 staff choose to opt out of their company pension. This low level is hardly surprising given employer pension contributions and tax relief are essentially free money. Younger members of staff are usually more likely to remain in the pension, whereas older members of staff are more inclined to opt out, perhaps because they feel it is too late in the day to start saving. The pension provider can advise on how to handle people who opt out. While it is against the law to encourage, entice or otherwise cajole staff to opt out, an understanding of this process will be helpful.

## And finally...

Setting up a pensions auto-enrolment scheme is not an overnight process – it takes time. Employers are best advised to take an early lead in investigating their options as the Pensions Regulator is not going to listen sympathetically to an employer that has not complied with their obligations.

The ultimate source of advice is the Pensions Regulator itself (see here: www.thepensionsregulator.gov.uk/en/employers), which has a website with a number of helpful resources. Firms can also speak to the Pensions Regulator, which can be contacted on 0345 600 1011 – they will need their employer PAYE reference or letter code. ■

## Jargon buster

**A pension document will contain some phrases that mean little to the layman. The following are the most common:**

» **Annual allowance** The maximum savings into pensions that you can have in a year that qualify for tax relief – based on your own contributions, any employer contributions and any contributions made on your behalf by someone else

» **Annuity** A type of retirement income that provides you with a regular payment, usually for life

» **Defined contribution pension (Money purchase pension)** Builds up a pot to pay you a retirement income based on contributions from you and/or your employer and investment returns

» **Flexi-access drawdown (Income drawdown)** Allows you to use your pension pot to provide a regular retirement income by reinvesting it in funds specifically designed and managed for this purpose

» **Lifetime allowance** The maximum value of pension savings that you can build up without incurring a tax charge at the time you draw out your savings as cash or pensions (and without leaving a tax charge for your beneficiaries if you die before age 75)

» **Money purchase annual allowance (MPAA)** A reduced annual allowance for tax relief on defined contribution pension savings that applies if you have taken money out of any pension pot as cash, either entirely or as small cash sums

» **Tapered annual allowance** From April 2016, the annual allowance will be reduced or 'tapered' if your 'adjusted income' (your annual income before tax plus the value of your own and any employer pension contributions) is over £150,000

» **Uncrystallised funds pension lump sum** A cash sum taken from a pension pot that has not paid out any retirement income. For each withdrawal the first 25% will be tax-free and the rest taxed at your appropriate tax rate