

How will the 2012 pensions reform affect your business?

Posted by Rod Milne in [Pay & benefits](#) on Thu, 25/11/2010 - 11:52



Rod Milne looks at how HR managers should prepare for the upcoming pensions reform.

As someone with responsibility for human resources you will be well aware of the impending 2012 introduction of the National Pensions Savings Scheme (NPSS). The new rules will impose a requirement on all employers, large and small, to contribute financially to their workforce's pension plans. The aim of the legislation, is to encourage people to save for their future retirement.

If you represent one of the 13% of organisations in the UK that does not currently offer an occupational pension scheme what can you expect from the new legislation?

From 2012 an employer will have to automatically enrol all employees in an approved private sector pension scheme, known as a Personal Account. An alternative route is to opt into the National Employment Savings Trust (NEST), a new provision managed by a government appointed Corporation that is aimed at low to medium earners who don't have access to a private pension scheme through their employer. "NEST will provide a low cost no frills option best suited to those companies that do not wish to embrace a more substantial pension scheme for their staff," says Rod.

To allow time to plan for these changes, the new rules will be staged over a four-year period from 1 October 2012. Larger companies will be affected first. For those businesses with 50,000 plus employees the staging date will fall in 2012; for employers with 500+ employees it will be 2013 whilst companies with less than 500 staff will not be required to implement the changes until 2014.

How much will SMEs need to contribute?

"For most SMEs, the key issue surrounding pension reform will be what is the cost to my business," says Rod.

Employers will be required to pay at least 3% of qualifying earnings for those jobholders opting in the scheme. Employers can choose to pay more but by 2017 the total contributions from employers and jobholders must be at least 8% of qualifying earnings.

"It is interesting to note that when questioned, twice as many employers thought that the 3% contribution was too low as thought it was too high," he continues.

The contributions are based on an employee's qualifying earnings i.e. gross earnings between £5,035 and £33,540 (with proportionate amounts for a period of less than 12 months). These figures are based on 2006 earnings and are expected to be increased for 2012. 'Earnings' include: salary or wages; commission; bonuses; overtime payments; statutory sick pay; statutory maternity pay; ordinary or additional statutory paternity pay and statutory adoption pay; plus, other sums as are allowed under regulations.

The rules apply to full-time, part-time, fixed-term/temporary and agency workers where there's a written or implied contract of employment in place.

"Although employees are automatically enrolled on the pension scheme, they can opt out. However, under current proposals, the government will make it as difficult as possible to do so. Any job holder that does opt out will have to repeat the process in three years' time," explains Rod.

"It may be difficult to do so, but employers should try and think of these reforms in a positive light. A decent pension scheme can be incorporated into a package of benefits that can be used to attract and retain key staff. It is possible to use different pension schemes for specific job grades, so for example, a higher pension contribution being made available for more senior roles. Or pension contributions could be reassessed as part of an annual review or job appraisal and thereby used as a reward or motivational tool," says Rod, adding, "Plus; the new rules offer a level playing field and will safeguard minimum standards. All employers will be working within the parameters of the same system and this will lead to less red tape and a greater transparency and understanding of the pension rules."

As an employer, what should you be doing now?

It is wise to start planning for the changes earlier rather than later. An initial action would be to examine any existing employee pension schemes to see if they will meet the minimum requirements as set out by the Act.

To help guide HR managers through the complexities of the legislation, HFS Milbourne has set up a special HR Hotline on 0845 054 6656 where a specialist team of pension advisers are available to provide expert advice to anyone who is unclear about how the new rules will affect their business.

"As independent financial advisors we are able to assess current pension provision, not only to see if it complies with the new rules but to see if there is room for improvement in terms of performance and the level of charges currently being paid. It is not unusual to reduce pension scheme charges by 20-30%," explains Rod.

There is also the option to consolidate an employee's current pension provision. By pooling investments into one single pension, HFS Milbourne can select a portfolio from a very wide range of the best performing funds on the market. Rod continues: "Above all, a single pension fund with the right investment strategy and asset allocation offers the ability to achieve significantly higher returns on your investment."

Research shows that those companies with less than 25 employees are the most adverse to the new legislation. Of this group, two thirds currently make no contribution to an employee pension scheme. Plus there is a general feeling among these small businesses that the 3% employer contribution is too high.

As it stands there is no provision to waive the rules for any SME whose viability is threatened by the 3% pension contributions. There is a suggestion that as part of the pension review, the government may remove the default retirement age altogether in line with the growing trend amongst UK organisations. "Whilst many believe that removing staff purely on age grounds is a huge waste of human resources, there is a financial implication to be considered, not least the pension provision. But that's another discussion." says Rod.

Right now, the main priority for most SMEs is to prepare for the cost implication of the compulsory 3% contribution.

"SMEs with under 500 employees have until 2014 to become fully compliant and should therefore start the review process as soon as possible," concludes Rod.