

personal accounts

How will this new scheme affect you and your company?

Major reforms introduced to workplace pension provision could have a significant cost impact for employers.

The Pensions Act 2008 has introduced changes to workplace pension provision. The changes may affect employers, particularly those with low rates of pension scheme membership, or where no employer sponsored pension exists.

New legislation introduced personal accounts (a new workplace pension scheme), but, importantly, it also introduced compulsory pension contributions and auto-enrolment, both of which will have cost implications for employers and employees.

Expected implementation is October 2012, but further details on employer obligations and the design of the personal accounts scheme should be available by the end of 2009. We have highlighted the key aspects for employers to consider, so that appropriate advanced planning can be put in place.

What are personal accounts?

The Personal Accounts Delivery Authority is responsible for establishing the personal accounts scheme, which will be a defined contribution scheme (otherwise known as 'money purchase'). Participation will be available to all employers.

The scheme is targeted at low-to-moderate earners. Details of charges, administration and investment options are yet to be finalised, but it is expected that a fairly narrow range of investment options will be available and there will be a maximum annual contribution limit.



What will it cost my company?

A cornerstone of the new legislation is the requirement that an employer must auto-enrol an eligible 'jobholder' into a qualifying workplace pension scheme (QWPS). A QWPS will be either the personal accounts scheme, or any other employer sponsored pension arrangement that meets prescribed quality tests.

Not only must an employer auto-enrol its jobholders (which may include contract workers), it will also have to pay contributions to a QWPS, at a prescribed minimum rate.

The required minimum contributions for any jobholder aged between 22 and state pension age will be 8% of qualifying earnings (earnings between £5,035 and £33,540 in 2006/07 terms).

Of this, an employer must pay at least 3%, the member will pay 4% and tax relief will be 1%. The contributions are likely to be introduced on a phased basis, as outlined in the table.

	Minimum employer	Minimum total
2012	1%	2%
2013	2%	5%
2014	3%	8%

Can the employer or employee opt out?

The employer cannot opt out, and must designate a QWPS for its employees.

A jobholder can opt out of membership of the personal accounts scheme, or the employer's designated QWPS.

Employers will face fines if they are found to be inducing jobholders to opt out. Anyone who opts out must automatically be re-enrolled every three years.

I already run a pension scheme for employees, am I exempt?

Offering the following types of pension scheme will exempt an employer from offering membership of the personal accounts scheme.

- A defined benefit scheme, where the accrual rate meets the requirement for contracting out, or, if the scheme is contracted in, where the accrual rate is at least 1/120 of qualifying earnings.
- A defined contribution scheme, where the total contribution for the member is at least 8% of qualifying earnings, of which at least 3% is paid by the employer.

If you operate a scheme that meets higher quality standards, you will be able to stipulate a waiting period of up to three months for an eligible employee to join such a scheme.

Do I have to offer auto-enrolment?

Yes. An employer will have to automatically enrol a new jobholder into the personal accounts scheme or a QWPS within prescribed time limits – either seven days for a contract-based pension scheme (a personal pension plan) or fourteen days for a trust-based scheme.

If you offer a higher quality QWPS, a waiting period of up to three months can be applied.

2012 is a long way away. What should I be doing now?

As an employer, you need to review your existing pension arrangements, and consider these in light of the quality tests that are likely to apply for a QWPS.

If there are no existing pension arrangements, or if current contributions fall below the new minimum contributions, you need to plan for additional costs and look at budget implications for the business.

Auto-enrolment may mean a much higher take-up rate of an employer's pension arrangement, which will directly increase an employer's operating costs.

It would also be worth considering introducing employer pension contributions at salary reviews, in lieu of pay rises.

Where can I get help with this?

If you would like to find out more about how you can limit the impact of the new regulations on your business, please speak to your usual contact at Smith & Williamson Financial Services Limited, or any of the contacts listed below.

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The timetable for implementation of auto-enrolment will now be three years from October 2012 (rather than 18 months). Further, the deadline for employers to reach 3% contributions on banded earnings has been extended to October 2016.

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