



ST. JAMES'S PLACE
WEALTH MANAGEMENT

PENSION REFORM

Key questions for Auto Enrolment

Auto enrolment cannot be ignored; legislation clearly puts the responsibility firmly on the shoulders of employers to operate a Qualifying Scheme correctly for all their workers including some who would be otherwise self employed. Failure to comply will result in a series of penalties and fines. So, as an employer (whether a company employing thousands or a sole trader with a single employee), while the resulting actions may be different, the key questions are the same:

- When do I need to have a Qualifying Scheme in place?
- Who do I need to enrol?
- How much will this cost?
- What choices do I have in selecting a Qualifying Scheme and,
- Is there anything that can be done to reduce the cost?

When do I need to have a Qualifying Scheme in place?

The 'staging date,' is the date by which you must have established your Qualifying Scheme, it varies between October 2012 and April 2017 depending on the number of employees on your payroll as at 1 April 2012. There is an interactive tool available from The Pension Regulator at www.tpr.gov.uk/automatic-enrolment which enables you to find out your staging date.

Who do I need to enrol?

All workers, whether part-time or full-time aged between 22 and State Pension Age who earn over the 'earnings trigger' in a pay reference period (£192.00 if employees are paid weekly, £833.00 monthly and £10,000 annually for 2014/15) must be auto enrolled. Workers outside these parameters simply need to receive a communication about their rights to join the scheme.

How much will this cost?

The statutory minimum contribution into the scheme will initially be 2% increasing to 8% of a workers 'qualifying earnings' from October 2018, made up of an employer's contribution of at least 3%, personal contribution of 4% and 1% from the Government in the form of tax relief. The 'qualifying earnings' will be total earnings falling within an earnings band of £5,772 to £41,865 in 2014/15.



What choices do I have in selecting a Qualifying Scheme?

There are a variety of different pension schemes that can be used for auto enrolment, from defined benefits schemes to personal pension plans. Your ultimate strategy for auto enrolment could be a multi-scheme solution with your workforce segmented into different schemes.

Your solutions will depend on the answers to the following questions:

- Do you have an existing scheme(s) in place for all your staff? If so, you can continue with this scheme as long as it meets the conditions for auto enrolment
- Do you only offer pension benefits to some staff, eg senior management? If this is the case you can continue with the scheme for these existing members (as long as it meets the conditions for auto enrolment) however you will need to set up a new scheme for all other workers

It is unlikely that you would want to start a new defined benefit scheme to satisfy your auto enrolment requirements.

Where, on average, contribution levels are likely to exceed £100 per month per individual and you employ more than ten workers, you may be able to set up a group personal pension scheme. Alternatively, the offerings from NEST, The People's Pension or NOW: Pensions may be an appropriate solution. Further information on these solutions is available on request.

Is there anything that can be done to reduce the cost?

While contributions themselves can be based on 'qualifying earnings' or 'pensionable earnings' (where different minimum contributions may apply), in addition to the level of contributions it will be advisable to consider ease of administration, as this will also be a contributor to cost. The scheme with the lowest contribution levels may substantially increase the administrative burden. Beyond this you could look at salary sacrifice. This is a method of using National Insurance savings to help fund part of the overall contribution for both you and your workers.

Pension reform is coming and, even if auto enrolment may still be some time off for you, for many employers there is much to think about and plan for. The sooner you engage in this process the easier the process and cost will be to bear.