Innovate

Financial Services

Pensions Update:

For the first time in history employers now have obligations to make contributions to pensions for their workforce.

A result of the pensions Act 2008, since October last year the largest employers have been enrolling their staff into workplace pensions. As the months move on, more and more employers reach their “Staging Dates”, the date at which they are obliged to start making contributions from. Your own date is determined by the number of eligible employees on your payroll and can be checked on The Pensions Regulator’s website.

The legislation is aimed at closing the retirement funding gap and ensuring all eligible employees will be saving for their retirement.

That means that each eligible individual will be contributing at least eight per cent of their qualifying earnings towards a pension for their retirement. Of this eight per cent, at least three percent must be paid by their employer.

The Pensions Regulator (TPR) will be ensuring employers comply with the new requirements – from categorising the type of workers employed (eligible jobholders, non eligible job holders or entitle workers) and enrolling some workers into an automatic enrolment scheme or arranging membership of a pensions scheme for others; to providing employees with information about the pensions scheme; and ensuring the ongoing maintenance of the scheme and appropriate records.

While the requirements could become onerous careful planning and preparation can take much of the work away from the employer leaving them free to concentrate on their core business.

The Pensions Regulator website recommends a period of 12-18 months before your staging date to begin preparations for auto enrolment. Typically this will involve :

1 - know your workforce. You'll probably have to automatically enrol at least some of them. What you'll need to do depends on their ages and how much they earn.

2 - You'll need to make sure your business software will support automatic enrolment. Many of the functions necessary for handling the specific requirements will need to be automated, such as:

- deducting and paying contributions to the scheme
- monitoring the ages and earnings of your staff
- handling requests to join the pension scheme from members of staff who haven't been automatically enrolled.

3 - You may already have a pension scheme for some or all of your staff. If you have one, you'll need to decide whether you want to carry on using it.

4 - Communicate to staff. With automatic enrolment becoming more publicised, it's a good idea to start communicating to your staff early on, to raise general awareness about its arrival and how they'll be affected.

While TPR wants to be seen as educating businesses in the requirements expected from them, in addition to encouraging compliant participation, there’s no doubt that those not complying with the guidelines will potentially face substantial fines.

Employers have a key choice to make when establishing an auto enrolment scheme

1 - use the National Employment Savings Trust (N.E.S.T.) and be responsible for all administration and reporting connected with the scheme

2 - set up a private scheme which can be tailored to your own company's needs and the provider will oversee implementation, ongoing administration and reporting.

Latest figures published by the N.E.S.T. show the opt out rates for employees around 9%, indicating that the majority of employees are staying in their new workplace schemes.

Not only is this a strong indication that auto enrolment will significantly boost the number of employees saving for their future, but could result in a happier workforce. After all, giving employees something they want can only improve retention and make for a more motivated staff.

So don't put off today what you'll only need to do tomorrow. For many people pensions remain the best way of saving for their retirement so it is critical that we ensure that people saving privately are doing so into high quality, value for money schemes.