

## pensions



# Retirement **planning**

WHAT DOES THE GOVERNMENT'S PLAN TO ENROL EVERY EMPLOYEE IN A PENSION SCHEME MEAN FOR SMALL BUSINESS OWNERS, **ASKS DAVE HOWELL?**

**I**n a recent survey conducted by the Association of Consulting Actuaries more than half of the small businesses that responded stated they believed the government's plans for automatic enrolment into a pension scheme would add significant costs to their businesses.

"The success of the auto-enrolment policy in smaller firms is likely to hinge on how well the economy recovers over the next few years," says ACA chairman Stuart Southall. "The opt-out rates expected are much higher than we found amongst larger organisations - 35 per cent as against 15 per cent.

"The cost of pensions to both employees and employers is the big issue that has prevented the extension of pension provision to date in the sector. While auto-enrolment may break the mould, if we are all still paying higher taxes to recover overspending it's difficult to see how this will not bump up opt-out rates."

### RESPONSIBILITY

The Chartered Institute of Personnel and Development supports employers auto-enrolling employees in pension schemes in order to encourage individuals to take personal responsibility and save for their retirement. However,

the organisation is not convinced that forcing companies to auto-enrol their workers into a pension scheme is necessarily the best way to encourage individuals to save for their future. The CIPD says it would prefer a system of auto-enrolment into a flexible savings vehicle, of which pensions is just one complementary option. Individuals could then select those savings vehicles that best suit their needs.

Under the new system, employers will need to enrol all employees automatically into a National Employment Savings Trust pension scheme, unless they already offer a suitable alternate qualifying pension. Importantly, employees will be compelled to contribute four per cent of band earnings

(between around £5,000-£33,000) and employers will have to contribute three per cent. A further one per cent will be paid in the form of tax relief, meaning that a total contribution of eight per cent of band earnings will need to be paid into a NEST pension scheme or an alternative from 2012.

The scheme is to be introduced in stages, with some pilot schemes expected to commence in 2011 and larger employers adopting the scheme from 2012. Employers with less than 50 employees will not have to automatically enrol their staff into a scheme until sometime between March 2014 and February 2016. Further exemptions will be extended to new companies established after October 2012.

The CIPD, in association with asset management firm BlackRock, reported that: 'Small and medium-size companies with lower-paid, more transient workforces tended to be sceptical about the value of pensions and offer the minimum required to be compliant. Personal accounts are likely to emerge as the dominant model among these firms.'

'Among SMEs that perceive the importance of pensions there will continue to be a range of models, including contract-based defined contribution schemes, trust-based defined contribution schemes and, in some instances, some form of defined benefit. These firms may start new employees out with a personal account, before moving them onto a contract or trust-based defined contribution scheme.'

### CHALLENGING

What is clear is that the new pensions regime will be a challenging environment for many employers. Smaller companies have often complained about the burdensome nature of pension related regulations and required accounting practices. Will the new system offer these employers any relief?

'Employers can overcome many of the potential problems by preparing employees for the changes - briefing them on the timing and implications and pointing out the opportunity for employees to opt out of schemes if they wish,' says Robin Chater, secretary-general of the Federation of European Employers. 'More problematic will be the rule that automatic enrolment will re-trigger every three years, so employees will need to be made aware that they could face compulsory contributions unless they respond to automatic re-enrolment notices.'

Jo Knockles, training and communications manager at TaxAssist Accountants, adds: 'There will most certainly be additional costs for small businesses in order for them to comply. Not only is there the obvious additional expense of the contributions, but also the investment advice to select the right scheme for the business and its employees, the unquantifiable work involved in registering and administering the scheme, and potentially the requirement to change the systems and processes inherent in the business to cope with the change.'

Commenting on the question of how small business owners can illustrate to employees the benefits of the new pension scheme, Ian Jenkins, head of employee benefits at the Richmond House Group, an investment and financial services provider, advises: 'Employers should look to provide something that employees will value.'

Ideally, employers should engage with their staff in advance of automatic enrolment so that employees are aware of the impending changes.

'Talk to them and understand what they would consider valuable and try to accommodate the feedback in what the employer decides to make available. This won't always be possible, but if you ask the question it will at least give you an understanding of what is important to employees and what they would value.'

### UNDERSTANDING

Martyn Keates of Action Business Consultants adds: 'Take time to understand the legislation and plan for the future. This may be a case of including calculations in forecasting that may result in price changes to products and services, realigning staff in their roles to see if all positions are necessary or considering opting out of the scheme by rewarding employees with

occupational pension schemes. Communicating the scheme satisfactorily to individuals is essential to ensure contentment.'

Consider whether it would be best to set up your own scheme or join one managed by a third party, advises human resources expert and author Kate Russell, who adds: 'Factor the cost into your budget. Ensure that your planning and record keeping systems are safe and satisfactory. Detailed records of all the contributions for each member of staff have to be kept for a minimum of six years.'

'It will be your responsibility to auto-enrol employees into a pension scheme. The employee can opt out, but employers will have to have a mechanism for re-enrolling opted-out employees every three years, so you'll have to plan and diarise this type of follow up action.'

Planning is critical if you want to effectively manage the new pension regime that is fast approaching. 'Once again, employers are being required to handle a social problem when the state cannot find the political will to do so itself,' says Robin Chater. 'Demographic changes mean that pensions are becoming a much bigger element in people's lives. The state is reluctant to take fully into account the true rise in life expectancy and mismanagement within the state welfare system is removing any leeway there may be to switch funds towards state pension provision.'

'Asking employees to fund all their additional pension needs is also a political hot potato and small employers are once again seen as an easy source for what amounts to an additional tax. Unfortunately, small companies are the lifeblood of any economy and a four per cent tax on payrolls could be the dividing line between success and failure for a growing business.'

Pensions continue to be a contentious business issue, but they look likely to become an additional cost centre that must be accommodated. **MM**

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