



Beginners Guide to Employer's Pension Schemes

IMPORTANT NOTE: This might be boring but it is important! If you are an employer or even just a one-person limited company you will have to deal with this.

Executive summary

It's another government pension initiative and means both employer and employee contribute to a pension scheme. It will mean that you have to setup or join an appropriate scheme and it will cause you an administrative headache. It will cost the employee 4% and the employer 3% of salary. It is probably best to setup an ordinary employers or workplace pension scheme and not wait for the new NEST rules to hit you.

What is it?

The Government has introduced legislation that will mean that every business with employees, including one-person limited companies, will have a pension scheme to which both the employer and the employee will have to pay pension contributions.

The legislation is the National Employment Savings Trust or NEST and the government's intention is that everyone will have a pension scheme to which they and their employer contribute as a way of dealing with the problem that not enough people currently contribute towards a pension. Look out for rotten puns on building a NESTegg! NEST itself is state sponsored and legislated but

is run by scheme operators in a non governmental organisation.

Is NEST a good thing?

Obviously having a pension scheme to which individuals and employers contribute is a good thing for those individuals future.



BUT! NEST isn't cheap. The current plan is for the government to levy either a 2% or a 1.8% charge on NEST contributions. On top of this the NEST itself will charge a 0.3% management fee – making a grand total of between 2.3% and 2.1% in initial charges – which is lots more than most standard workplace schemes!

NEST is not as flexible as an workplace scheme, for example the rules don't allow for transfers of funds to or from NEST and an ordinary pension

scheme. Although the Government has said that it will review this in 2017.

At the time of writing NEST is intended to be administered by TATA Consultancy Services – Yes! The subsidiary of an Indian Car manufacturer!

What is our advice?

Our advice is actually to not register with NEST, until you have looked at and considered the advantages of having your own qualifying pension scheme instead. Mainly because it would appear that a qualifying scheme gives the employer and the employee greater flexibility. Secondly, to organise and put in place your



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own qualifying pension scheme during 2011. For the simple reason that it is likely to be less costly to setup in 2011 than in 2012 - changes to the Financial Services regime in the UK due in 2012 are likely to both increase the cost of financial services advice and mean that there are less advisors qualified to sell you a pension!

When have you got to do stuff by, what are the deadlines?

The rules are phased in (on staging dates) from October 2011 to February 2016 depending upon the number of employees you have. See the comprehensive list of dates at the end of this guide. But by 01 October 2011 businesses with 120,000 employees need to comply; by 01 September 2013 businesses over 1,250 employees need to comply. However, if your businesses has less than 50 staff then there are varying dates depending upon the reference number of your PAYE scheme! Which makes it very complicated, but essentially you probably need to be compliant by 01 March 2014 but it could be as late as February 2016.

What does your business have to do?

Either sign up to operate NEST or have an occupational scheme that qualifies as a replacement because it has similar rules about auto-enrolment and levels of contributions. You have to have done this at least 6 months before your staging date.

What does it cost?

The employee has to contribute 4% of salary and the employer has to contribute 3% of salary. This can be phased in at 1% extra each year from 2014 to 2016 as per the table below.

Furthermore, setting up a scheme will cost money.

	Minimum percentage of qualifying earnings that will be paid in total	Minimum percentage of qualifying earnings that employers must pay
Up to September 2016	2%	1%
October 2016 to September 2017	5%	2%
October 2017 onwards	8%	3%

Need help to get this sorted? Ring us on **01234 752566** or email us at **info@vowles.co.uk** and we will arrange an appointment with our employer pensions specialist.



8% of what?

The contribution is on qualifying salary – which is defined as total earnings between the earnings threshold and an upper limit. Incidentally, total earnings include a worker's salary, wages, overtime, bonuses and commission, as well as statutory sick pay and statutory pay he or she receives during maternity, paternity or adoption leave. If earnings are more than the personal allowance then pension contributions are due ... but the contributions due are worked out based on the National insurance earnings thresholds and a upper limit linked to the 2007 upper earnings threshold. The earnings thresholds and limits for 2011 are shown below, and are likely to be changed for 2012.

Tax year	Personal allowance	Earnings threshold	Upper Limit
2010/11	£6,475	£5,715	£38,185
2011/12	£7,475	£7,225	£?
2012/13	-	-	-

There is also a minimum monthly contribution, currently of £11.25 and a maximum annual contribution of £3,600, but again these are expected to change and be increased by 2012.

Do employees have to join it?

No, but! The rules are built around auto-enrolment. That is that every employee is automatically enrolled into the pension scheme from the relevant start date and from the anniversary of the relevant start date or from when they start work with you. However your employees can choose to opt-out of the pension scheme. What you can't do as an employer is require them or ask them to opt-out ... they have to initiate any request to opt-out. Which probably means that the employees will not even ask about opting



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out until the first payment has been automatically deducted from their wages!

What do I need to be careful to get right?

If you have an existing pension scheme – check that it can be tweaked to make it a qualifying pension scheme or what your contractual duties are in closing it down or transferring it into a qualifying scheme.

Think and plan for the impact it will have on your business – do you need to increase your prices so that you have 3% extra margin to cover the pension contributions?

What if you get it wrong?

The initial penalty is £400 for failure to have a qualifying scheme or be registered with NEST, followed by daily penalties of £60 per day. But these daily penalties can rise to £10,000 per day depending upon the number of employees you have.

Also any employer who wilfully fails to comply with certain key duties (auto-enrolment, re-enrolment, opt-in rights of jobholders, for example) will be guilty of an offence, liable on conviction to imprisonment, a fine or both.

Some technical details :

Employers will have to auto-enrol into the National Employment Savings Trust (NEST) any eligible employee. An eligible employee is one who is between 22 years of age and State Pension Age and earns more than a certain minimum unless:

- he/she is a member of your final salary pension scheme that meets certain minimum standards, or
- he/she is a member of your money purchase pension scheme and there is a minimum level of employer contributions, or
- he/she is a member of your personal pension plan or stakeholder pension scheme and there is a minimum level of employer contributions.

If an eligible employee is not an existing member of one the schemes mentioned above, he/she must be either auto-enrolled in the NEST or in your employer's pension arrangement provided that arrangement meets certain minimum conditions as to the benefits it pays or the level of contributions paid to it.

At present, although employers can auto-enrol employees into an occupational pension scheme, they cannot auto-enrol employees into a workplace personal pension. However, from 2012, employers can

choose to auto-enrol eligible employees into either an occupational pension scheme or a qualifying Workplace Personal Pension.

There is no requirement to auto-enrol in any pension arrangement an employee who does not meet the eligibility conditions – but they can choose to join.

Auto-enrolment is a process whereby employees are automatically entered into a pension scheme without any form of application on their part. Many employees fail to join valuable pension schemes where they first have to initiate an application process. Auto-enrolment is meant to overcome this obstacle.

When the pension reforms are introduced in 2012, all eligible employees will have to be auto-enrolled into a qualifying pension scheme. Employers will be able to choose which qualifying scheme to use, including the new National Employment Savings Trust (NEST). All qualifying schemes must meet minimum standards, either of the benefits it provides or the amount of contributions paid to it, and must also provide auto-enrolment for all eligible employees who have not already joined the arrangement and for all new employees when they become eligible.

The staging date for your business depends upon the number of employees – note that this includes full time or part time employees and rules are likely to count any and all employees during a tax year, including starters and leavers, ie it is a total headcount and not full-time equivalents calculation.

More details of staging dates are on the next pages.

CAVEAT

This Beginners Guide is no substitute for proper specific professional advice and no liability can be accepted for any acts or omissions taken as a result of reading it. Tax law is complex, changes frequently and much will depend upon your individual, precise and detailed circumstances.

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Staging dates for businesses with less than 50 employees	
01 March 2014	Less than 50 with the last 2 characters in their PAYE reference numbers 92, A1-A9, AA-AZ, B1-B9, BA-BY, M1-M9, MA-MZ, Z1-Z9 or ZA-ZZ
1st August 2014	Less than 50 with the last 2 characters in their PAYE reference numbers BZ
1st September 2014	Less than 50 with the last 2 characters in their PAYE reference numbers 00-01
1st October 2014	Less than 50 with the last 2 characters in their PAYE reference numbers 02-04
1st November 2014	Less than 50 with the last 2 characters in their PAYE reference numbers 05-07, 0A-0Z, C1-C9, CA-CZ, D1-D9 or DA-DZ
1st January 2015	Less than 50 with the last 2 characters in their PAYE reference numbers 08-11, 1A-1Z, E1-E9 or EA-EZ
1st February 2015	Less than 50 with the last 2 characters in their PAYE reference numbers 12-15, 2A-2Z, F1-F9, FA-FZ, G1-G9 or GA-GZ
1st March 2015	Less than 50 with the last 2 characters in their PAYE reference numbers 16-20, 3A-3Z, H1-H9 or HA-HZ
1st April 2015	Less than 50 with the last 2 characters in their PAYE reference numbers I1-I9, IA-IZ
1st May 2015	Less than 50 with the last 2 characters in their PAYE reference numbers 21-25, 4A-4Z, J1-J9 or JA-JZ
1st June 2015	Less than 50 with the last 2 characters in their PAYE reference numbers 26-31, 5A-5Z, K1-K9 or KA-KZ
1st July 2015	Less than 50 with the last 2 characters in their PAYE reference numbers 32-38, 6A-6Z, L1-L9 or LA-LZ
1st August 2015	Less than 50 with the last 2 characters in their PAYE reference numbers N1-N9 or NA-NZ
1st September 2015	Less than 50 with the last 2 characters in their PAYE reference numbers 39-47, 7A-7Z, O1-O9, OA-OZ, P1-P9 or PA-PZ
1st October 2015	Less than 50 with the last 2 characters in their PAYE reference numbers 48-57, 8A-8Z, Q1-Q9, QA-QZ, R1-R9, RA-RZ, S1-S9, SA-SZ, T1-T9 or TA-TZ
1st November 2015	Less than 50 with the last 2 characters in their PAYE reference numbers 58-69, 9A-9Z, U1-U9, UA-UZ, V1-V9, VA-VZ, W1-W9, WA-WZ
1st January 2016	Less than 50 with the last 2 characters in their PAYE reference numbers 70-83, X1-X9, XA-XZ, Y1-Y9 or YA-YZ
1st February 2016	Less than 50 with the last 2 characters in their PAYE reference numbers 84-91 or 93-99
1st February 2016	(a) Less than 50 unless otherwise described (b) no PAYE scheme



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Staging dates for businesses with over 50 employees	
01 October 2011	businesses with 120,000 employees
01 November 2012	businesses over 50,000 employees
01 January 2013	over 30,000 employees
01 February 2013	over 20,000 employees
01 March 2013	over 10,000 employees
01 April 2013	over 6,000 employees
01 May 2013	over 4,100 employees
01 June 2013	Over 4,000 employees
01 July 2013	over 3,000 employees
01 August 2013	over 2,000 employees
01 September 2013	over 1,250 employees
01 October 2013	over 800 employees
01 November 2013	over 500 employees
01 January 2014	over 350 employees
01 February 2014	over 250 employees
01 April 2014	over 240 employees
01 May 2014	over 150 employees
01 June 2014	over 90 employees
01 July 2015	over 50 employees

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