

RETAIL AND WHOLESALE
PERSONAL ACCOUNTS
ANOTHER HIDDEN COST FOR
THE RETAILER?

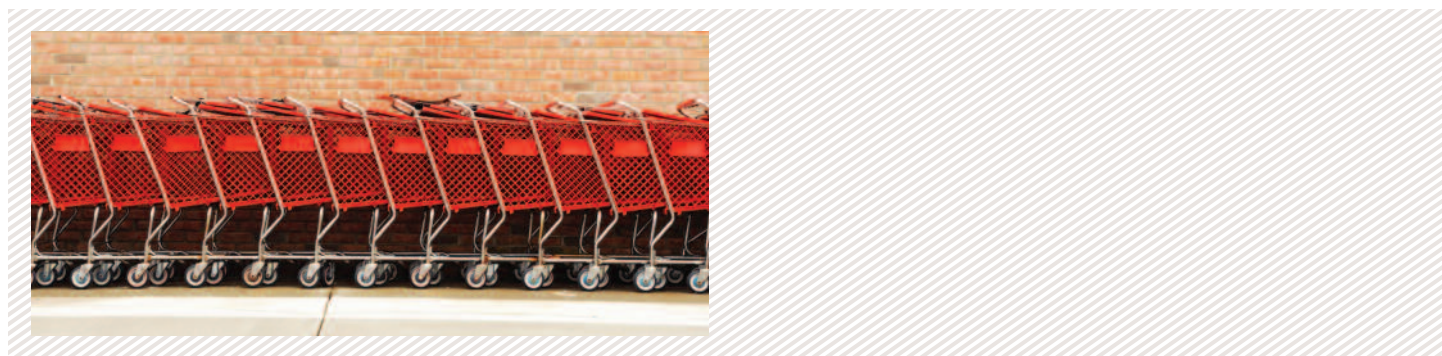




“At a time when some retailers are still struggling to achieve decent margins it is going to be difficult for some to absorb additional, and potentially significant, costs.”

DON WILLIAMS, HEAD OF RETAIL AND WHOLESALE, BDO

► **2012 MAY SOUND A LONG WAY OFF, BUT SHORTLY AFTER THE EXCITEMENT OF THE LONDON OLYMPICS HAS DIED DOWN, IN OCTOBER TO BE PRECISE, PERSONAL ACCOUNTS WILL ARRIVE AT THE STARTING LINE, BRINGING WITH IT A SIGNIFICANT COST AND OPERATIONAL HEADACHE FOR THE UNPREPARED EMPLOYER.**



Not heard about Personal Accounts yet? If not then you need to get up to speed! The Government is introducing a new State occupational pension scheme, into which every employee in the UK, aged between 22 and 75 and earning more than £5,035 (in 2007 terms), will be automatically enrolled (unless the employer offers a 'qualifying' pension scheme).

What is more, the responsibility for auto-enrolling employees and administering Personal Accounts, will fall **entirely on employers**, which could potentially be an administrative nightmare, not to mention a significant cost burden for retailers. It is crucial then that the financial and administrative implications of the scheme are considered well in advance of its enforcement so that the most efficient processes and procedures are put in place to curtail the operational upheaval and mitigate any excess cost.

If we get a change of government in 2010, will Personal Accounts be scrapped? The short answer is 'no'. The Pensions Act 2008 (which includes the establishment of Personal Accounts), has received Royal Assent, and has broad cross political party consensus.

But what are employers and employees actually expected to pay? The minimum contribution to be made by employers will eventually reach three per cent of a band of earnings from £5,035 to £33,540 (in 2007 terms). This band of earnings will include:

- Salary or wages
- Commission
- Bonuses
- Overtime payments
- Statutory sick pay
- Statutory maternity/paternity/adoption pay

The minimum contribution level will be phased in to allow employers more time to cope with these additional costs. The proposal, contained in the Chancellor's Pre-Budget Report of 9 December 2009, is to phase in employer contributions from one per cent between October 2012 and October 2016; two per cent for the following 12 months and three per cent from October 2017.

The minimum employee contribution will be phased in a similar fashion (albeit at different levels), staggering the contribution bands over a five year period. In addition, employees will receive a one per cent tax credit on their contributions (equivalent to 20 per cent tax relief on the current basic rate of tax). If the steps are to mirror the revised employer contribution steps, then, one per cent from October 2012, three per cent from October 2016 and four per cent from October 2017.

So, a minimum total contribution of 8 per cent of the banded earnings by October 2017 (ie three per cent employer, plus four per cent employee, plus the one per cent tax credit).

Additionally, the Chancellor has extended the phasing in period for auto-enrolment of employees to the scheme by smaller employers. We understand that 'large' employers (over 250 employees), will start auto-enrolling from October 2012, tapering down to the smallest employers (less than 50 employees), being phased in up to 2015 (At this time we do not have the precise timings of this phasing in relation to the size of employer).

Can the employer simply deduct employees' contributions from pay? The legislation permits an employer to deduct contributions from pay – the employer will not need explicit authorisation from the employee to do so.

WHAT ABOUT AN EXAMPLE OF THE 'REAL' COST?

- A. A high street retailer employs more than 1,000 staff. There is a relatively high turnover of staff, part timers and temporary staff, but 800 employees earn more than £5,035 per annum; there is an average age of 25 and average earnings of £12,000 per annum.

The retailer currently offers access to a Stakeholder pension plan, but does not contribute to it and only a handful of staff have bothered to join it.

So, based on 2007 levels, the employer faces an additional labour cost in the year commencing October 2012 of:

$$800 \times £6,965 \text{ (ie } £12,000 - £5,035) \times \text{one per cent} = \mathbf{£55,720}$$

rising by the year commencing October 2017 to

$$800 \times £6,965 \text{ (ie } £12,000 - £5,035) \times \text{three per cent} = \mathbf{£167,160}$$

And each employee is faced with a minimum personal annual contribution by October 2017 of:

$$£6,965 \times \text{four per cent} = \mathbf{£278.60}$$

“Retailers need to start planning for this legislation now. They need to consider how they will finance the expense and associated compliance costs”

GRAHAM POULTENEY, PENSIONS CONSULTANT, BDO INVESTMENT MANAGEMENT LIMITED

- B.** A specialist retail operation that does not have conventional shop outlets, but a highly trained workforce of 100 staff and traditionally offers highly competitive salaries in lieu of any other benefits (including pensions).

The average age of staff is 36 and average earnings are £38,000.

So, the first year's cost, probably commencing in 2013 (due to the size of the employer) will be:

$$100 \times £28,505 \times \text{one per cent} = \mathbf{£28,505}$$

rising by the year commencing October 2017 to

$$100 \times £28,505 \times \text{three per cent} = \mathbf{£85,515}$$

And each employee is faced with a minimum personal annual contribution by October 2017 of:

$$£28,505 \times \text{four per cent} = \mathbf{£1,140.20}$$

- C.** An agency supplies temporary staff to various and numerous outlets. The outlets pay the agency which in turn remunerates the staff.

The legislation stipulates that the remunerator, ie the agency, is responsible for not only auto-enrolling the staff, but also for contributions.

The agency has 2000 temporary staff on its books and each 'temp' averages earnings of £18,000 per annum.

So, based on 2007 levels, the employer faces an additional labour cost in the year commencing October 2012 of:

$$2,000 \times £12,965 \text{ (ie } £18,000 - £5,035) \times \text{one per cent} = \mathbf{£259,300}$$

rising by the year commencing October 2017 to

$$2,000 \times £12,965 \text{ (ie } £18,000 - £5,035) \times \text{three per cent} = \mathbf{£777,900}$$

So, why doesn't the employer simply "encourage" employees to opt out of Personal Accounts? The legislation actually makes this an offence, and the Personal Accounts Development Authority (PADA) have committed to run checks to ensure this does not happen.

Ok, so why doesn't the employer just delay auto-enrolling its staff? The legislation states that a new employee will have to be enrolled by the employer with effect from the day they start work. An existing job holder will qualify immediately for auto-enrolment when the employer's responsibilities start, so it is likely the employer will have to auto-enrol them right away.

It is expected that the regulations will allow employers up to 14 days to enrol eligible employees, and during this period they must be supplied with information on auto-enrolment.

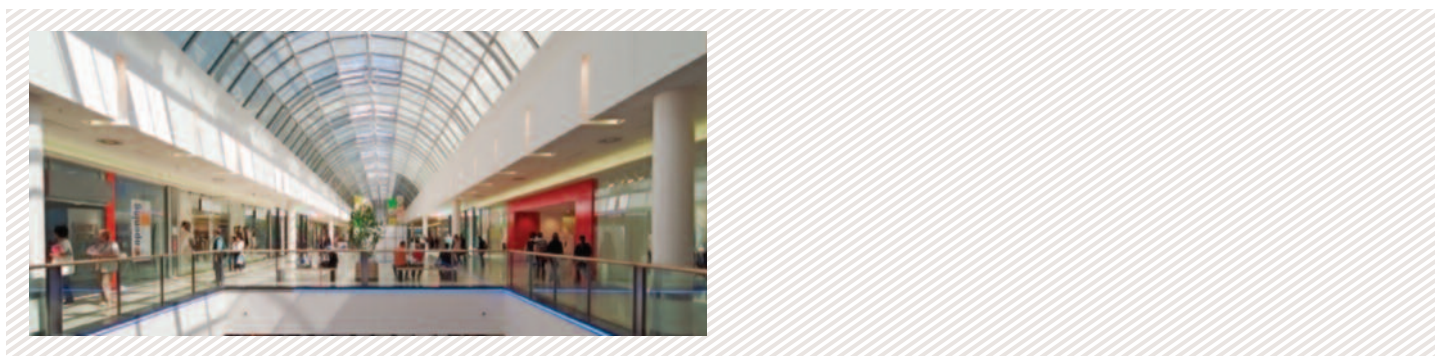
But can the employee choose to opt out? An employee who is auto-enrolled has the right to opt out within a certain period (still to be set by the regulations). However it is widely anticipated that this time period will be 30 days from date of enrolment. If exercised, the employee will then be treated as if the enrolment had never happened and any contributions paid will have to be repaid. Opting out refers to non-participation from the enrolment date.

Is opting out a once and for all decision? No. Automatic re-enrolment will normally be on a three yearly basis, unless the employee exercises their right again to opt out.

If the employer offers a 'qualifying' pension scheme, membership of which exempts employees from auto-enrolment into Personal Accounts, what continuing obligations are imposed on the employer? Employers will be under a general duty not to do, or fail to do, anything that would result in the employee ceasing to be an active member of the qualifying scheme, or the scheme ceasing to qualify.

Also, the employee must not be required to complete an application form to be enrolled as an active member and there must be a default investment fund available.

SO, WHAT DOES THE EMPLOYER NEED TO DO NOW? THE LONDON OLYMPICS OF 2012 MAY SEEM A LONG WAY OFF, BUT AN IMMENSE AMOUNT OF PLANNING AND CONSTRUCTION IS ALREADY WELL UNDER WAY. AUTO-ENROLMENT AND PERSONAL ACCOUNTS WILL HAVE SIGNIFICANT IMPACT ON EMPLOYERS AND EMPLOYEES SO THE PLANNING AND PREPARATION MUST START NOW.



▶ **AUTO-ENROLMENT AND PERSONAL ACCOUNTS: TEN QUESTIONS TO TEST YOUR STATE OF READINESS**

If you are unable to answer 'yes' to all ten questions below, then you should seek advice.

- Have you quantified how much this is going to cost your business?
- Have you planned future changes in remuneration and benefit packages in order to meet the additional costs?
- Will you meet your auto-enrolment duties – as set out in the Pensions Act 2008?
- If you already have a pension scheme, will this be used for auto-enrolment?
- If you use an existing pension scheme, are any necessary rule changes in hand, and will you use the self-certification regime?
- Have you considered a 'nursery' scheme for new joiners, to lessen the cost impact on your company?
- Does the existing scheme (if not Defined Benefit) have a default investment fund? (If not, then it needs one – jobholders must not be required to make any investment choices).
- Have you drawn up opting out procedures for existing jobholders and new joiners?
- Have you set up opting in processes and communications for the advent of auto-enrolment, and have you considered re-enrolment processes and communications?
- Do you have any high earners with enhanced protection rights? (They may be affected by auto-enrolment). Or, do you have any low earners, and if so, have you considered the possible implications for them of auto-enrolment?

BDO CAN OUTLINE WAYS IN WHICH THE EMPLOYER CAN SPECIFICALLY PLAN AND PREPARE FOR 2012; FOR EXAMPLE BY UTILISING/ADJUSTING ANY EXISTING PENSION ARRANGEMENTS AND/OR USING A SALARY SACRIFICE MECHANISM TO HELP REDUCE NATIONAL INSURANCE COSTS IN ORDER TO HELP ALLEVIATE NEW EMPLOYER AND EMPLOYEE COSTS.

ABOUT BDO

BDO is an award winning UK Member Firm of BDO International, the world's fifth largest accountancy network, with more than 1000 offices in over 100 countries*.

With the largest market penetration of the retail sector outside of the Big Four, BDO plays a leading role through advising many of the UK's retail businesses. We have strong links with the retail community in the UK and internationally allowing us to deliver the best possible service. We provide advisory, transaction and assurance services and our partners are renowned for their commercial and pragmatic approach to solving problems.

HOW WE CAN HELP YOU

If you would like further information about this publication or our specialist knowledge of the retail sector, please contact:

Don Williams
Partner, Head of Retail and
Wholesale
don.williams@bdo.co.uk
020 7893 2358

Graham Poulteney
Pensions Consultant
graham.poulteney@bdo.co.uk
020 7893 2798

Alternatively contact your local BDO business centre:

BIRMINGHAM
steve.mant@bdo.co.uk
0121 352 6244

BRISTOL
jim.brown@bdo.co.uk
0117 930 1511

CAMBRIDGE
kieran.storan@bdo.co.uk
01707 255 925

CHELMSFORD
kieran.storan@bdo.co.uk
01707 255 925

GLASGOW
neil.craig@bdo.co.uk
0141 249 5234

HATFIELD
kieran.storan@bdo.co.uk
01707 255 925

LEEDS
mark.hunt@bdo.co.uk
0113 204 1265

LONDON
don.williams@bdo.co.uk
020 7893 2358

MANCHESTER
dermot.power@bdo.co.uk
0161 817 7534

NORTHERN IRELAND
francis.martin@bdo.co.uk
02890 439009

READING
andrea.porter@bdo.co.uk
0118 925 4432

SOUTHAMPTON
kim.hayward@bdo.co.uk
023 8088 1897

**SOUTHERN REGION:
EPSOM, GATWICK**
david.eagle@bdo.co.uk
01372 754 500

www.bdo.co.uk



'Tax Team of the Year' 2009 and 2008
'Audit Team of the Year' 2008
'Corporate Finance Deal of the Year' 2008

*Including exclusive alliances of BDO Member Firms.

BDO LLP operates across the UK with some 3,000 partners and staff. BDO LLP is a UK limited liability partnership and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO International is a world-wide network of public accounting firms, called BDO Member Firms. Each BDO Member Firm is an independent legal entity world-wide and no BDO Member Firm is responsible for the acts and omissions of another member. The network is coordinated by BDO Global Coordination B.V., incorporated in the Netherlands with its statutory seat in Eindhoven (trade register registration number 33205251) and with an office at Boulevard de la Woluwe 60, 1200 Brussels, Belgium, where the International Executive Office is located.

BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Services Authority to conduct investment business.

BDO is the brand name for the BDO International network and for each of the BDO Member Firms.

BDO LLP is the Data Controller for any personal data that it holds about you. We may disclose your information, under a confidentiality agreement, to a Data Processor (Shamrock Marketing Ltd). To correct your personal details or if you do not wish us to provide you with information that we believe may be of interest to you, please contact Amanda Bunney on 020 7893 2104 or email amanda.bunney@bdo.co.uk

Whilst every care and attention has been taken to ensure the accuracy of this information, it is intended for general guidance only. Please call us if you would like specific advice on any matter.

Copyright © December 2009. BDO. All rights reserved.



This document is printed on 9lives 80, a paper containing 80 per cent recycled fibre and 20 per cent virgin Totally Chlorine Free (TCF) fibre sourced from sustainable forests. 9lives 80 is produced by an ISO 14001 accredited supplier.