

OFFICIAL: PENSION COMPULSION IS COMING!

OCTOBER 2010



THE COALITION GOVERNMENT ACCEPTS THE RECOMMENDATIONS OF THE REVIEW DOCUMENT "MAKING AUTOMATIC ENROLMENT WORK", PUBLISHED ON 27 OCTOBER 2010.

The following is a summary of what is coming and what has changed:

Measure	Original terms	Revised terms	Comment
When to auto enrol	Within one month of an employee starting work	Within three months of an employee starting work – employee can opt in during "waiting period"	Lessens the financial impact for employers with high/short term staff turnover
Start Date	October 2012 for the largest employers; through to late 2014 for the smallest employers (2015 and 2016 for new "start ups")	No change	A slight surprise – it had been thought that "micro" employers might be excluded, but there are no employer exemptions
Minimum Contribution levels	1% of total earnings from the employer and 1% from employees; increasing in October 2016 to 2% and 3%; increasing in October 2017 to 3% and 5%	4 alternative bases! i. 9% of basic pay (including at least 4% employer) ii. 8% of basic pay (including at least 3% employer) providing pensionable pay = at least 85% of total pay iii. 7% of pay (including at least 3% employer) providing that 100% of total pay is pensionable or iv. 8% of banded earnings (including at least 3% employer – the current basis)	A veritable plethora of choices forming part of a "simple certification process" At this time we have not seen the changes to the "step ups" in contributions
Employee tax relief	Basic rate income tax relief on own contributions	No change	

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Measure	Original terms	Revised terms	Comment
Total earnings band for the basis of contributions	Between £5,035 and £33,540 (2006/07 terms)	Auto enrolment for those earning more than £7,475 (2011/2012 terms), but contributions based on National Insurance threshold of £5,715 in today's terms	The Review panel consider this approach to be consistent with the Government's stated aspiration to increase tax thresholds to £10,000 in nominal terms within the course of this Parliament
Minimum age for auto enrolment	22	No change	
Maximum age	State Pension Age (SPA)	No change	
Individual opt out	Within one month of being auto enrolled by employer	No change	
Re-enrolment by employer	3 years after individual opt out	A 6 month "window" for the employer – i.e. 3 months either side of re-enrolment date	Designed simply to give employers more flexibility
Individual opt in	Any employee aged between 16 and 22, and between SPA and 75 can ask to be auto enrolled and the employer must accede to the request and contribute	Also, employees earning between the two threshold levels (see above), and any in the 3 month "waiting period" must be allowed to auto-enrol	Whilst the 3 month waiting period will be welcomed, the widening of voluntary opportunities may create administrative issues for employers (plus extra cost)
Eligible jobholders	Age and earnings levels as above – regardless of type of employment contract – i.e. includes full time; part time; short term and/or fixed term contracts	No change to the overall principles, subject to change in earnings thresholds	No apparent escape for those employers with employees on 3 month plus employment contracts
Where to auto-enrol	Employer certified Qualifying Workplace Pension Scheme (QWPS), or the State sponsored National Employment Savings Trust (NEST)	No change	The Review has recommended the softening of the QWPS certification process
How to auto-enrol	Paperless joining process – no employee authorisation required	No change	
Where to invest	Default investment fund/process on employee entry into QWPS or NEST – employee not required to make any decision on joining	No change	Final details of the NEST investment funds are still awaited
NEST contribution cap	£3,600 per annum	To be reviewed in 2017 with a recommendation to remove it	Will put NEST on a more level playing field with a QWPS
Transfers in or out of NEST	Not permitted – to be reviewed in 2020	To be reviewed in 2017 with a recommendation to remove restriction	Will put NEST on a more level playing field with a QWPS

Many employers face a significant increase in staff costs, especially those, for example, who do not currently contribute at least minimum levels as set out above, and/or currently only have a relatively small proportion of their total staff in any existing pension arrangement.

It is time to start planning now.

BDO Investment Management Limited (BDOIM) has already reported to a number of employers on (a) the potential cost impact of auto-enrolment on their company, and (b) various ways in which employers may plan **NOW** to mitigate some or all of those additional costs.

Contact BDOIM and begin your preparations for pension compulsion.

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