

BBS briefing note

Pensions Act 2008 - Auto-enrolment and the Personal Accounts Scheme

The Pensions Act 2008 reforms workplace pension provision by introducing the requirement for UK employers to auto-enrol employees into, and make contributions to, a qualifying pension scheme.

A qualifying pension scheme may be an existing defined benefit or defined contribution scheme meeting certain minimum standards. Alternatively, the Personal Accounts Scheme is being set up to offer a low cost, independent scheme that any employer can use.

Although much of the detail has yet to be finalised, this *BBS briefing note* outlines the requirements that are expected to come into force in 2012.

THE BACKGROUND

The Pensions Act 2008 received Royal Assent in November 2008 and requires all employers to make compulsory contributions to a qualifying pension scheme, into which employees must be auto-enrolled. The Act requires that the scheme offered by the employer reaches at least a minimum quality standard.

To ensure that every employer will have access to a low cost, independent arrangement, the Personal Accounts Delivery Authority ("PADA") has been established, by legislation, and charged with establishing a scheme to satisfy the quality standard. This scheme will be known as the Personal Accounts Scheme.

The Personal Accounts Scheme will be a trust-based, multi-employer defined contribution (or money purchase) arrangement.

PADA's stated aim is "to help millions save for their retirement. Personal Accounts will be targeted at those who currently don't participate in workplace pensions – in particular, low to middle earners."

The maximum contribution to a member's Personal Account has been set initially at £3,600 per annum.

THE REQUIREMENTS OF THE ACT

The Act sets out the following main requirements:

- Employees between age 22 and State Pension Age must be auto-enrolled into a qualifying scheme;
- Employees outside of this age band can elect to be enrolled;
- Auto-enrolment will occur from the first day of employment;
- Employees can opt out. However if they do so they must be automatically re-enrolled every three years;
- Employees' total earnings between £5,035 and £33,540 will be pensionable. These levels were set for 2006/07 and will be increased annually in line with earnings growth;
- Total earnings includes salary, wages, commission, bonuses and overtime;
- The employer must contribute at least 3% of an employee's qualifying earnings; and
- The total contributions must be at least 8% of an employee's qualifying earnings, including basic rate tax relief on any employee's contributions.

A PHASED INTRODUCTION

The requirements are due to come into force in 2012. The Act, however, permits a phased introduction of contributions, as a percentage of an employee's qualifying earnings, as follows:

| | Minimum Employer Contribution | Minimum Total Contribution |
|------|--------------------------------------|-----------------------------------|
| 2012 | 1% | 2% |
| 2013 | 2% | 5% |
| 2014 | 3% | 8% |



BBS briefing note (continued)

ALTERNATIVE PENSION ARRANGEMENTS

Employers are required to provide a pension scheme which reaches at least a minimum standard. If an employer does not have, or wish to establish, such a scheme, the Personal Accounts Scheme can be used.

The following alternative pension arrangements are defined as meeting the qualifying requirements:

- A defined benefit (or final salary) scheme if it is contracted out of the State Second Pension on a salary related basis;
- A contracted-in defined benefit (or final salary) scheme providing an accrual rate of at least 1/120th of qualifying earnings;
- A defined contribution (or money purchase) arrangement with contributions at least at the level set out above.

In addition, a scheme providing a mix of defined benefit and defined contribution benefits may be acceptable, although the full details have yet to be confirmed.

BBS VIEW

The Government has, for many years, been concerned with the level of pension savings being made, particularly in respect of those on low to middle incomes. The 2008 Act represents a significant development in the Government's strategy to address this and follows on from the Stakeholder legislation introduced in 2001. Stakeholder legislation required employers with five or more employees to provide access to a work-based pension arrangement. Critically, the stakeholder legislation did not require an employer to contribute to the arrangement.

The 2008 Act introduces compulsory contributions, which in conjunction with the requirement to auto-enrol employees, can be expected to result in an increase in total employment costs.

Significantly, this will particularly affect:

- employers who do not currently offer a pension arrangement meeting the minimum standard; and
- employers who do offer such a scheme but where it does not cover all eligible employees or where a significant number have opted-out.

In addition to auto-enrolling all new hires, employers will also have to auto-enrol any existing employees who were not eligible to join an existing scheme or who previously opted out of the scheme.

BBS will be assisting its clients in reviewing their pension arrangements to establish how they might proceed from 2012. This will include reviewing the existing arrangements to establish whether they will meet the minimum requirements and identifying any potential increase in costs as a result of auto-enrolment.

Whilst 2012 may seem a long way off, the introduction of personal accounts is likely to be significant for some employers and we would encourage early consideration of the potential impact.

This BBS briefing note is based on BBS's understanding of the law and is provided for information only. It should not be relied upon as a definitive statement of the law and detailed legal and financial advice should be obtained on the specific circumstances before proceeding.

