

Personal Accounts – Bulletin 1

Personal Accounts and Pensions Reform

Awareness of the Government's requirements for Personal Accounts is increasing and employers are starting to realise that they may have to make changes to their pension arrangements to satisfy the new requirements. This bulletin is intended to provide you with information on the changes which the Government is proposing for 2012 and how the changes may impact on you.

Introduction

In its Pensions White Paper, published in December 2006, the Government confirmed its support for the proposal, made in the Pension Commission's Report ('the Turner Report'), that a national pensions savings scheme should be established. In supporting the proposal the Government intention is to expand pension coverage to lower paid employees, who have little or no pension savings.

Pensions Bill

The Government's current proposal is that from 2012 employers will be required to include their employees in some form of pension scheme and contribute to that scheme in respect of those employees. They could do this via their existing schemes (which could be GPPs) or via the new Personal Accounts scheme.

Provision for this is contained in the Pensions Bill which is currently making its way through the Parliamentary process. Much of the finer detail will, however, only become clear once the supplementary regulations have been published, following enactment of the Bill.

It seems likely that larger employers (probably determined by the number of employees) will be required to auto-enrol their employees before smaller employers.

There is general support amongst the main political parties on the thrust of the proposals, although following any change in Government there could be changes to some aspects.

What we do know (?)

Once enacted, the Pensions Act 2008 will require each employer to include in some form of pension scheme those employees who are aged over 22, but under State Pension Age, and earning above the annual equivalent of £5,035 (uprated to 2012). This scheme could be the employer's existing, or even a new, occupational pension scheme, group personal pension scheme or individual pension scheme to which the employer contributes. Alternatively, the employer could auto-enrol employees into the centralised scheme to be established under legislation ('the Personal Accounts scheme').

Employees will have the right to opt out of a scheme into which they have been auto-enrolled, but the employer will be required to undertake a re-enrolment exercise periodically in respect of any employees who have exercised that right.

Employers and employees will be required to contribute a minimum amount based on 'banded earnings' (ie earnings between £5035 pa and £33,540 pa, uprated to 2012). The prescribed minimum percentages proposed are 3% for the employer and 4% for employees, with a further amount equal to approximately 1% being added by way of tax relief on the employee contribution.

In order to limit the immediate burden on employers and employees it is proposed that the payment of contributions will be phased in, in accordance with the following table:

	Minimum Employer Contribution	Minimum Employee Contribution (including tax relief)
Year 1	1% of banded earnings	1% of banded earnings
Year 2	2% of banded earnings	3% of banded earnings
Year 3	3% of banded earnings	5% of banded earnings

What are Personal Accounts?

The Government is introducing the Personal Accounts scheme for employers who do not wish to operate their own pension scheme or contribute via a personal pension scheme. The scheme is to be an occupational pension scheme established under the Pensions Act 2008. It will be a simple, trust-based, scheme and the intention is for it to enable those employers who currently make no pension savings in respect of their employees to satisfy the new employer duties.

A body, the Personal Accounts Delivery Authority ('PADA') has also been established to look into the delivery of the Personal Accounts scheme.

Funds held under the scheme will be subject to a low administration charge (in the long term envisaged to be not more than 0.3% pa) and there will be few member choices. For example, the scheme is likely to offer less investment flexibility compared to other pension schemes and a default fund is likely to be required for members who do not select an investment fund.

There is to be an annual limit on the total amount of contributions which can be paid each year. This maximum limit proposed is £3,600, (uprated until 2012) and this will be subject to future increases. The Government has confirmed that it is going not to introduce a higher contribution limit of £10,000 for the first year following the introduction of Personal Accounts.

Transfers into or out of the Personal Accounts scheme will not be permitted until at least 2017, when a review of Personal Accounts is to be undertaken.

What things do employers need to consider as the detail emerges?

Although there is a period of about four years until the Government's proposals are to be introduced, what is already clear is that virtually all employers will be affected to some degree. Employers need, therefore, to be aware that changes are being introduced and that they are likely to need to take some action to ensure that they comply with the new regulations. Certain questions need to start to be considered.

For example:

- Do you currently exclude certain categories of employee from membership of your existing scheme? And, if so, are you willing to include them in your existing scheme/ pension arrangement?

- Do you have a list of those employees who have previously chosen to opt out of your pension scheme/ pension arrangement?
- Are the contributions paid to your existing scheme/pension arrangement likely to be adequate to at least match the 2012 contribution requirements?
- How does your definition of pensionable salary compare with the 'banded earnings' which are to be used under the Government's proposals?

You may want to consider making gradual changes to prepare for 2012. For example, gradually extending membership or increasing contributions as part of pay negotiations between now and the introduction of the changes.

When will more detail be available?

The Pensions Act 2008 is now expected to be enacted this autumn (possibly November) and this will provide some certainty as to the changes which are to be made. However, as stated above, much of the detail of the Government's reform will be contained in supporting regulations and these are unlikely to be available until some time after the enactment of the Pensions Act 2008. PADA's work on the delivery of the Personal Accounts scheme also needs to be completed before some of the detail for Personal Accounts is known.

How can Clerical Medical help?

We will continue to keep you up to date with developments and what they might mean for your business.

Who can guide me through the changes?

Your financial adviser should be able to advise as to what the changes might mean for your business and, once the final detail is known, help with any changes which you may need to make to comply with the new requirements.