

New employee pension legislation - Employer problems

A recent Small Firms Pension survey by the Association of Consulting Actuaries (ACA) January 2009 which included businesses that employed less than 250 employees found that 80% of firms did not have any work place pension scheme at all. This raises the question of how many of these companies are aware of the new legislation regarding work place pension coming into effect in 2012. Of the employers who do make contributions to pension schemes, 55% will currently fail the exemption test and have to make changes to their existing arrangements.

Bringing in a work place pension scheme to encourage all employees to save for a pension can only be a good thing, but having the right arrangements in place is essential for good pension income prospects and security.

The Government has issued an upbeat report maintaining that over 95% of employees who were expected to be auto enrolled in to the new pension scheme are expected to get a pension income greater than what they would put in. There is also much debate going on at the moment about how “means tested benefits” will affect people’s pension pots at retirement, when the government brings out the new National Savings Pension Scheme in 2012.

Under this new legislation all employees are auto enrolled into a new or existing scheme with a minimum requirement to pay 4%, employers 3% and Government 1% of total banded earnings. A simple example would be say contributions of £4 employee, £3 employer and £1 by the Government, making a total of £8. The government says that for every £8 put in, 95% of employees were guaranteed to get £4 or more back which is not the same as the £8 back that has been invested in total. The really worrying figure is that the government has said that 5% of those would not even get back £4.

All employers are strongly advised to seek advice and address these issues with their advisers as this new legislation is going to affect all employers whether or not they have existing pension arrangements in place for employees. It would be wise to start now with an initial pension scheme audit to evaluate your current pension arrangements for employees against the requirements of the new legislation.

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