



Employer's guide to pension reform and the National Employment savings trust (NEST)

Introduction

Successive governments have been concerned by the lack of pension planning undertaken by many employees in the private sector. The coalition government is proceeding with legislation that was initiated by Labour, designed to ensure that all employees automatically join a suitable pension scheme. Both employees and their employers will be required to contribute to a pension scheme unless the employee specifically opts out. This summary covers the basic details of the new legislation including information on NEST, the government backed option for employers considering a new scheme.

Employer's Obligation

- Employers must offer all employees between the ages of 16 – 75 access to a qualifying pension scheme and provide information on the scheme.
- Employees aged between 22 and state retirement age who earn at least the basic income tax allowance (£9,440.00 pa in 2013/2014) must be auto-enrolled into the pension scheme. Those aged below 22 or above state retirement age can request to join the scheme.
- From the appropriate staging dates, employers must initially contribute 1% of the employee's qualifying earnings which will increase to 3% from October 2018.

- The employer is responsible for deducting the employee's contributions and forwarding all payments to the pension scheme provider.

Staging Dates

These requirements started for the largest firms with over 120,000 employees in October 2012. For smaller firms, the implementation date depends upon the number of employees. For most organisations these dates are as follows:-

Number of Employees	Staging Date
500 – 1999	1 st Sept 2013 – 1 st Nov 2013
250 – 499	1 st Jan 2014 – 1 st Feb 2014
50 – 249	1 st April 2014 – 1 st April 2015
40 – 49	1 st August 2015
30 – 39	1 st October 2015
Less than 30	1 st Jan 2016 – 1 st April 2017

Employees must be given at least 1 month's notice before the relevant staging date of automatic enrolment.

Contributions

From the appropriate staging dates, the employer will have to automatically enrol all eligible employees into a qualifying pension scheme and make contributions.

Other employees can choose to opt into the scheme. The employer must ensure that the pension scheme makes contributions of at least the minimum level indicated below which are based on the employee’s qualifying earnings band which, for the 2013/2014 tax year, is set at earnings between £5,668.00 and £41,150.00. This earnings band will be reviewed annually.

The **minimum** level of contributions increases in phases:-

Date	Employer Contribution	Employee Contribution	Tax Relief	Total Contribution
Up to Sept 2017	1%	0.80%	0.20%	2.00%
Oct 2017–Sept 2018	2%	2.40%	0.60%	5%
From Oct 2018	3%	4%	1%	8%

Employers can pay more than the minimum and allow employees to pay less providing that the total contribution is at least equal to the minimum total contribution. There is also no requirement to base contribution solely on the qualifying earnings band.

Reporting Requirements

Employers will be required to confirm how much they have met their requirements within 2 months of their staging date and every 3 years thereafter. Full records of the scheme will have to be retained for a minimum period of 6 years. Where employers fail to comply with the Regulations, there is a fixed penalty of £400.00 plus an additional amount of between £50.00 and £10,000.00 **per day** depending upon the level of non-compliance and the size of the employer.

National Employment Savings Trust (NEST)

The government has created NEST as a national workplace pension scheme which can be used to meet the requirements of the new legislation.

It is a low charge simple pension scheme with charges typically averaging at around 0.5% pa compared to around 1% pa for traditional pension schemes. Investment choice is very limited with the default option being a strategy based around the employee’s staged retirement date.

There are restrictions on maximum contributions to the NEST scheme, currently £4,500.00 pa and transfers are not allowed in or out of the scheme. These restrictions will be reviewed in 2017.

Ongoing support for employers and employees will be broadly limited to e-channels such as internet and e-mail. An advice service will be available to employers and employees at an additional charge which is still to be confirmed.

Thank you to Vale Insurance Services Limited for the provision of the information contained within this e-bulletin. www.vale.uk.com



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