FosterDenovo

2012 – Get ready for the change

In the world of pensions, major change is afoot. 2012 will herald the introduction of The Pensions Act 2008, reform aimed at simplifying pensions and overcoming the obstacles to saving. The Government hopes that these measures will encourage the estimated seven million people currently under-saving for their retirement to contribute towards their pension.

What is happening in 2012?

In 2012 all employers will be required to enrol eligible staff into a pension scheme and contribute towards their retirement. Eligible staff are those staff aged between 22 and State Pensionable Age (SPA), who earn between £5,035 and £33,540 a year; staff aged between 16 and 22 can choose to opt-in; agency workers, fixed-term and part- time contract workers are also included.

Staff can elect to opt out of schemes, in which case, employers will no longer be liable for paying employee contributions.

What does this mean for employers?

The Pensions Act will take effect from 2012 and will be gradually introduced depending on employers' size. All employers must offer a qualifying workplace pension scheme and automatically enrol eligible employees. Employers will be able to self certify that their existing workplace pension schemes meet the minimum requirements.

Those who do not must enrol staff into the Government's system of 'Personal Accounts', which will be launched to provide access to a low-cost pensions vehicle.

How much will it cost?

At least 8% of an employee's qualifying earnings must be paid into a pension, which is made up of;

- 3% employer contributions
- 4% employee contributions, and;

- 1% tax relief

Contribution rates can be phased in over the first three years of the scheme, starting initially with larger employers, who will be required to comply first.

What can employers do now to prepare for this change?

The big question all organisations need to ask themselves is 'are we ready for 2012'? For many employers, one of the biggest concerns will be the potential increased costs that this legislation will bring. Starting your preparation and budgeting now could help to manage any increased costs, so that you do not see a spike in pension costs overnight. Clearly, this reform could have a significant effect upon those organisations that do not currently have a pension scheme in place or have a low-take up rate amongst staff.

Key considerations that could help employers begin their preparation for 2012 include;

- Consider your budget now, the effect that 2012 may have and measures you can take to help cost-effective planning
- Decide which type of pension scheme to offer within your organisation
- Check whether any existing schemes that you offer meet the government's requirements
- Consider the impact upon retention and recruitment of employees
- Decide how you will communicate the changes to your staff
- Check to see whether you have the right systems and administration in place
- Start your preparations now – opting out is not an option

Foster Denovo will be running free workshops to help organisations begin their 2012 pension planning. These sessions are open to all ACEVO members and are being held on Tuesday 15th September 2009 at the Foster Denovo Ltd Head Office, 8 Eastcheap, London, EC3M. To reserve your place, please email marie-ann.abraham@fosterdenovo.com.

Alternatively, if you would like to find out more about this legislation and how it could affect your organisation, please contact Ian Bird on **0845 838 6060** or ian.bird@fosterdenovo.com.