KCFP Kilsby Corporate Financial Planning

Newsletter December 2013

Auto enrolment – Are you in?

Welcome to our latest bulletin which provides you with further information in relation to auto enrolment.
New auto enrolment rules dictate that employers must provide a company pension scheme for their employees that meet certain standards.

Employees who meet the following criteria will need to be automatically enrolled into a pension scheme: -

- Those aged between 22 and state pension age
- Earn more than £9,440 per annum
- Work or ordinarily work in the UK

Even those employees who do not meet these criteria may still need to be offered access to the pension scheme.

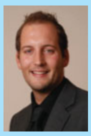
No of Employees	Daily fine
500+	£10,000
250-499	£5,000
50-249	£2,500
5-49	£500
1-4	£50

Employers who are not compliant with the new legislation come their staging date (refer to stage one on page 2) will be issued with a warning notice followed by a fixed fine of £400 if no progress has been made. If they still take no action a daily fine will apply with the amount dependant on the number of employees as detailed in the table.

It is in your best interests to take this legislation seriously in line with any other business buying decision for your business. The following article details the process that employers should undertake to ensure they are fully prepared and avoid unnecessary penalties.

My final article analyses the government's proposals on pension scheme charges which are expected to impact on both new and existing employer pension schemes.

Time is running out for you to plan effectively for this legislation. Kilsby Corporate Financial Planning Ltd is equipped with extensive experience and expertise to deliver financial services advice to companies and their owners. If you wish to benefit from a free consultation meeting please do not hesitate to contact me.



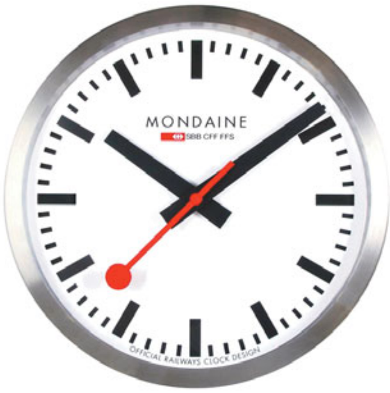
Mark Redman Dip PFS
Financial Planner
01633 653189
mark.redman@kilsbywilliams.com

Processing auto-enrolment

Stage 1 – know your staging date

Your staging date is dependent on payroll size as at 1st April 2012. Companies with over 120,000 employees took the first staging date of October 2012 with smaller companies to follow. The staging dates for 2014 are as follows: -

PAYE scheme size (number of employees)	Staging date (fixed at 1st April 2012)
350 - 499	1st January 2014
250 - 349	1st February 2014
160 – 249	1st April 2014
90 - 159	1st May 2014
62 - 89	1st July 2014
61	1st August 2014
60	1st October 2014
59	1st November 2014



The Pensions Regulator has a useful online tool to help any employer who wants to find out their staging date at http://www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx

Stage 2 – Segmentation of your workforce

Having established your staging date, an employer must then determine which employees should be automatically enrolled into their pension scheme and which employees should receive details of the pension scheme. This segmentation exercise must be carried out in advance of your staging date. The different segments of employees that will apply under the legislation are: -

Eligible Jobholder	- Aged between 22 and State pension age - Qualifying earnings over £9,440
Non-eligible Jobholder	-Aged between 16 and 74 with qualifying earnings between £5,668 and £9,440 OR - Aged 16-21 or state pension age and 74 with qualifying earnings over £9,440
Entitled Worker	- Aged between 16 and 74 - Qualifying earnings below £5,668

Those 'eligible jobholders' will need to be automatically enrolled into your pension scheme. You will need to notify the 'Non-eligible jobholders' and 'Entitled workers' of the existence of the pension scheme and that they can join if they wish – if they do join you will be required to make a pension contribution for the non-eligible jobholders but not the entitled workers.

Stage 3 – Audit existing pension schemes or selecting a new Qualifying scheme

You will need to register with the Pensions Regulator no later than 5 months after your staging date to confirm you have complied with your duties under the legislation. Those employers that already have existing pensions schemes set up can avoid establishing a new pension scheme if the following important checks are met by the existing scheme: -

1. Enrolment of employees - You previously invited employees to join your pension scheme after a probationary period (typically from 3 to 24 months of service). Following your staging date employee enrolment in your Qualifying pension scheme (new or existing) will need to take place after 3 months service.

2. Pension charges – More on this later but the Government will shortly announce their stance on an acceptable contract charge for those pension schemes being used for auto enrolment. This is expected to be between 0.5% and 1.0% per annum.

3. Contribution levels – You will need to certify the contribution levels selected for your employees and ensure they meet the minimum levels set by the legislation. The Government have announced 3 separate tiers which can be used as detailed on the next page: -

Tier 1 (based on basic pay):

Period	Minimum employer contribution	Minimum total contribution
Staging date – 30/09/17	2%	3%
1/10/17 – 30/09/18	3%	6%
1/10/18 onwards	4%	9%

Tier 2 (based on basic pay):

Period	Minimum employer contribution	Minimum total contribution
Staging date – 30/09/17	1%	2%
1/10/17 – 30/09/18	2%	5%
1/10/18 onwards	3%	8%

*This tier requires that basic pay accounts for at least 85% of total employee remuneration.

Tier 3 (based on gross employee earnings):

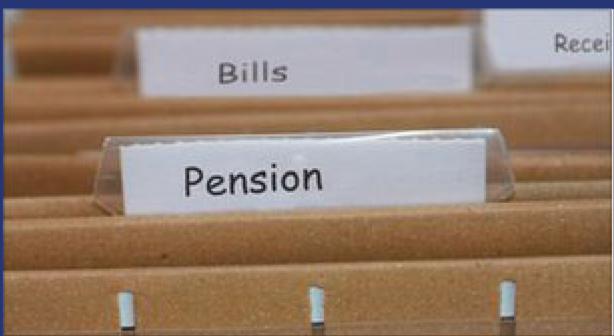
Period	Minimum employer contribution	Minimum total contribution
Staging date – 30/09/17	1%	2%
1/10/17 – 30/09/18	2%	5%
1/10/18 onwards	3%	7%

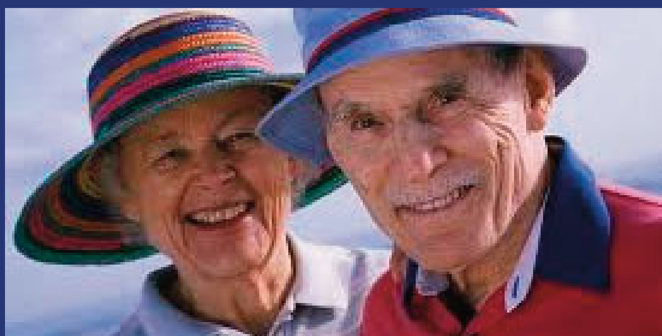
4. Default fund – Your chosen pension scheme needs to have a suitable default fund which accommodates all employee age ranges. A default fund is required for those employees who do not wish to select their own investments within their pension.

Stage 4 – Communication to your employees

Employees will require notice of the pension scheme within 1 month of the staging date. The letter communicating this will differ depending on whether the employee is being automatically enrolled (Eligible jobholders) or has the right to be enrolled into the pension scheme (non-eligible jobholder and entitled worker).

Again, The Pensions Regulator has provided a helpful tool and template letters to help you with the preparation of communications to your employees at:
http://www.thepensionsregulator.gov.uk/employers/writing-to-workers-about-automatic-enrolment.aspx





Employees will receive an opt out notice within their welcome packs from the chosen pension provider. Those who wish to opt out will have a 1 month window from the staging date to opt out by telephone, email or by returning the paper opt out notice. If they opt out within this period any contribution paid will be refunded. Any employees who have opted out will need to be re-enrolled into the pension scheme after 3 years but can the subsequently opt out again if they so wish.

The cost of retirement

The Government have published a consultation paper asking for industry views on introducing a charges cap on those pension schemes used for auto enrolment of between 0.5% and 1% per annum of an employee's pension value.

The example below details the impact a pension charge has on an employee's pension fund during their working life. John aged 25, James aged 35, and Joe aged 45 are all automatically enrolled into a pension scheme on 1st April 2014. Each will average a monthly contribution of £200 per month over their working life and each retires at age 65.
Their pension funds have each generated an annualised return of 4% per annum. The table below illustrates the value of their pension funds based on pension contract charge of nil, 0.5%, 0.75% and 1% per annum: -

CHARGE	JOHN	JAMES	JOE
No charge	£228,000	£135,000	£71,500
0.5% per annum	£203,000	£124,000	£68,000
0.75% per annum	£191,500	£119,000	£66,000
1% per annum	£181,000	£114,000	£64,500

As you can see the charges set by a pension scheme can have a drastic effect on the growth of an employee's pension – this inevitably impacts on their level of retirement income. A worst case scenario may be that some members cannot afford to retire at age 65 as a result of the charges taken from their pensions.

The table illustrates the importance of taking your time to prepare to meet your obligations under auto enrolment, and setting up a tender process to obtain the most appropriate contract for your staff. Quality of service provided and performance of funds will need to be considered alongside charges; however, strong competition in the market means that with early preparation you should be able to obtain a good quality pension scheme with a reasonable annual charge.

Kilsby Corporate Financial Planners can assist companies in meeting their auto enrolment obligations. This will involve researching the pension market to find the most suitable provider for the company's needs and negotiating with the pension provider on their behalf.

And finally...

We would like to take this opportunity to wish all our clients, friends and colleagues a Merry Christmas and a very happy New Year. We look forward to working with you in 2014.
From everyone at Kilsby Corporate Financial Planning

Contact us

Tel: **01633 810081** • Fax: **01633 653199** • Web: **www.kilsbyfinancialplanning.com**
Kilsby Corporate Financial Planning Ltd, Cedar House, Hazell Drive, Newport, NP10 8FY

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