KCFP KILSBY CORPORATE FINANCIAL PLANNING

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KILSBY & WILLIAMS
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Auto Enrolment – Window of Opportunity?

Implementing auto-enrolment, consultancy charge barriers and assessing suitable default fund selections for your chosen employer pension scheme. Do you have a headache yet?

This bulletin provides assistance for employers on all of the above areas to prepare and position yourselves to meet your obligations to your staff under the auto-enrolment pension legislation. All employers will be affected by auto-enrolment over the next 4 years with some company's offering a pension scheme for the first time. This legislation will bring some additional challenges to payroll departments. Sadie Leadbetter from Kilsby & Williams Chartered Accountants provides some insight into Real Time Accounting.

Kilsby Corporate Financial Planning Ltd are 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.

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Fail to prepare = prepare to fail!

Whether you are a large firm looking for a pension provider to work closely with on implementation of auto-enrolment or a small employer looking for a more 'off-the-shelf' solution that employees will value and trust, there are some key issues that should always be considered when selecting the right pension scheme for your employees.

The onus will pass from the government to employers to choose and set up pension schemes, and oversee their compliance with the raft of new regulation brought about with auto-enrolment.

A thorough plan is vital if auto-enrolment is to be implemented effectively. Planning is a key function in any business environment and by clearly identifying goals and anticipating the important steps along the way will help to ensure the implementation process goes well and is successful. Below are a few pointers to look out for when selecting a scheme which is suitable for your business: -

1. The product
There are many pension products available to you, some embedded and robust, some shiny and new but largely untested, some cheap and basic, and other more expensive providing additional luxuries. The product selected should meet the requirements that you have and the needs of your staff, the future members of the scheme.

2. Value for money
This issue can be confused with the sentiment 'cheapest is best', but the two are not necessarily the same. The charges made to members through the pension annual management charge is important, but should be considered alongside other features such as provider support, the investment default offering and number of investment links available.

3. Employer support
Many employers will want to know what support is available from the pension provider in working through more complex issues, particularly in making sure processes are robust and member data can be managed effectively. A good auto-enrolment provider will have built systems capable to help employers with user-friendly online systems and streamlined enrolment processes. It is also important that an employer facing a technical issue can pick up the phone to the pension provider and speak to a suitably qualified and experienced individual who can guide them sensibly.

Continued...

4. Investment Options

Without doubt, investment returns play a massive part in the success of enrolment. A lot of negativity towards pensions is likely to be a result of previous bad experiences which have likely resulted from a member not being invested into an investment they are comfortable with.

Every individual is different and each will have their own attitude to investment risk which can change over time. The provider should offer a sufficient range of funds, in terms of what is available to those members who wish to pick their own funds, but also a number of default funds selected for the scheme rather than just one. This caters for those members with different risk profiles who do not feel confident in picking investments themselves.

5. Commitment to workplace pensions

Perhaps one of the main considerations is the pension provider's commitment to delivering workplace pensions over the long term. This does not just mean continuing to supply the product but also to invest further resources into making the product more efficient over time. Technology has made significant changes to the pensions market over the last 5 years with all pension providers now having websites and most allowing the pension member access to their pension funds online. What will technology bring in the next 5 years and can the pension provider adapt its product to meet any movements in the market as well as any further changes in legislation?

Preparation is key

Selecting an appropriate pension scheme for your business and staff needs time and preparation. This should not be a decision that is made overnight. Kilsby Corporate Financial Planning has the experience and resources to help you make appropriate decisions.

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Real Time Information and Accounting

"Real Time Information (RTI) has been introduced to improve the operation of Pay As You Earn (PAYE). It will make the PAYE system easier for employers and HM Revenue & Customs (HMRC) to operate, and employees will receive information more quickly. It will also help support the introduction of Universal Credit."
HM Revenue & Customs

From April 2013 employers and pension providers began to use the RTI service and all employers must be operating in Real Time by October 2013. The introduction of RTI means that employers and pension providers inform HMRC about tax, National Insurance contributions (NIC) and other deductions, including student loan payments, at the time payments are made, rather than at the year end. This is done online by sending a number of submissions through either an Electronic Data Interchange or through the Government Gateway.

After the initial set up, RTI will simplify the PAYE process by changing the reporting of starters and leavers and removing the need to prepare and submit forms P35 and P14. It will make PAYE deductions more accurate for individuals and reduce Tax Credits error and fraud. Another reason for RTI is that it will support payments of Universal Credits from October 2013.

The system will enable HMRC to pursue late payments more effectively as they will be aware of what is due for each period. HMRC will be able to calculate the amount of tax and NI withheld from employee wages in a tax month, along with the employer NI liability. As a result, HMRC will be in a position to charge interest on any perceived underpayment on a month by month basis if the amount paid to HMRC by the employer is less than the liabilities calculated from the RTI data. If payments are reduced by other factors such as CIS or reclaim of NI on statutory payments, a further submission is required each month to inform HMRC of the reason.
The next major change to the payroll function will be the implementation of auto-enrolment pensions. From April 2014, these pensions will be staged in and all employees between 22 and State Pension age, earning over the personal allowance each year, without an existing pension scheme, will be required to enrol.

Payroll processing

Before using the RTI system, every employer must undergo 'employer alignment' which is the confirmation of the employee's details. This is done by most employers either on the first Full Payment Submission (FPS) or by using an 'Employer Alignment Summary' (EAS).

On the first FPS, HMRC require that you include details of all employees in the current tax year (including starters that have not yet been paid and those that have already left), together with the hours each person normally works. A separate FPS must be submitted if you run both monthly and weekly payrolls using the same PAYE reference.

Once the first FPS or the EAS have been submitted, the subsequent FPS will only include pay and deduction details for employees paid on that particular day. At the end of each tax month, if payment to HMRC has been reduced, an Employer Payment Summary (EPS) must be submitted.
At the end of the tax year, a full P35 return showing amounts paid will not be required, but a submission of declarations to HMRC is still required.

If you have any queries on RTI please contact me.

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Robbing Peter to Pay Paul

For many years financial advisers have used payments from pension providers to meet the costs of their advice to both employers and employees with regard to company pension arrangements.

In the 1980s and 1990s large up front commissions were paid by pension providers on the successful 'sale' of a pension scheme to an employer. This had a detrimental impact on the returns generated within the pension arrangements as these commissions were met from the pension product; the myth of 'free advice' was exactly that, a myth.

The government grew increasingly concerned about the UK public's retirement provision and disillusionment with pensions. The result of this was the introduction of stakeholder pensions in 2001. Stakeholder pensions capped product charges at 1% of the value of the pension fund each year. The average charge on pension products at the time was 2.5% per annum of the value of the fund! Unfortunately stakeholder pensions were not compulsory on pension providers and many failed to adhere to the new legislation.

Roll forward a decade and the government are increasingly concerned about the UK public's retirement provision and disillusionment with pensions! Auto-enrolment legislation is the result and now all employers will have to offer their staff pension provision.

Again, we have seen the gradual creeping in of large payments to financial advisers from some pension providers to meet the costs of providing company pension advice. Of course this has led to high charges on the recommended pension contracts to meet these adviser payments.

Charges expressed as % of fund per annum	2.5%	1%	0.5%	No charge
Fund at age 65	Ł164,924	Ł228,171	Ł255,357	Ł286,375

A 65 year old man today could expect a pension income some £5,100 per annum higher (55% higher) with a fund of £255,357 than a fund of £164,924 (assumes a standard single life annuity level in payment).

Who pays for the financial advice?
Until now an employer wanting financial advice and assistance in relation to setting up a pension scheme for their employees had three options in relation to the payment of advice costs;

(1) The employer pays the advisor for the 'consultancy' costs directly.
(2) The pension product could be used to meet the 'consultancy' costs by way of an additional product charge; typically an additional charge added to the annual management charge.
(3) A combination of 1 and 2.

Kilsby Corporate Financial Planners charge a fee based on the time we spend assisting an employer and employees in making their pension choice. An estimate of this fee is always provided at outset so advice costs are clear.
A trusted adviser can help employers set up an appropriate scheme that is compliant to the auto-enrolment legislation. He or she can ensure the employer's needs are catered for, and help market the scheme to employees many of whom will be investing in a pension for the first time. Advice can be provided with regard to investment risk, fund choice, and helping the employee set a realistic objective in terms of retirement age and income.

A trusted adviser will review the scheme, help reassure the members that the pension is fit for purpose, and maintain their interest in the pension.

Without an adviser employers will have to take on the full responsibility for setting up the pension scheme. Whilst this will save on advice costs, this may turn out to be an illusionary saving as considerable time and resources will be required by an individual(s) within your business to ensure the legislation requirements are met. It is also questionable as to whether that individual will have the necessary knowledge and experience to ensure that the pension meets the needs of the company and the workforce.

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M4 NEWPORT

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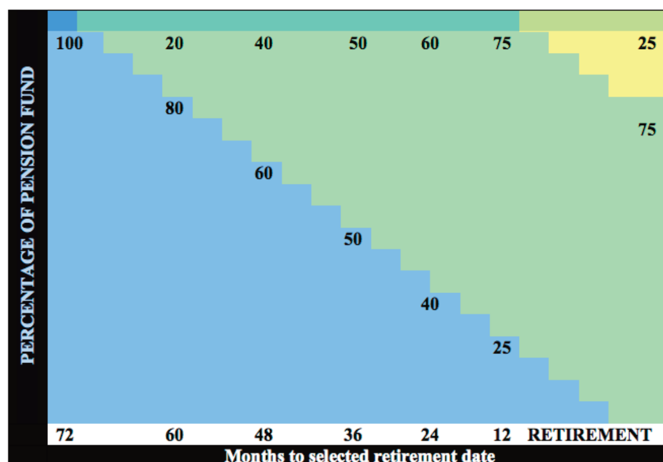
Peace of mind to secure the retirement LIFESTYLE you want

Saving for retirement is a long term financial commitment. The level of risk you are prepared to accept when you start a pension may be quite different to the level of risk you want to take as retirement approaches.

Under the new auto enrolment legislation employer sponsored pension arrangements have to designate a 'default' fund under the scheme for those staff members who do not wish to select their own investments within their pension. How do you select a default fund for a workforce including 20 year olds as well as 50 or 60 year olds?



HIGHER RISK	LOWER RISK	CASH

The disadvantages are that lifestyle options are based around your selected retirement date which you set at outset of your pension. You may later find that this date is not an accurate reflection of your circumstances and therefore you may wish to take your pension benefits at a different time. Also, the 'lower' risk funds do carry risk and can still go down in value. While investing in equities does involve taking a higher level of risk the potential for higher long term returns is far greater than fixed interest investments such as Gilts.

A number of pension providers offer a mechanism known as 'lifestyling'. This is a process where your accumulated pension fund is automatically gradually moved from higher risk and more volatile investments, such as equities, into lower risk alternatives such as gilts the closer you get to your retirement date.

Lifestyling commonly kicks in 5 or 6 years from retirement and in the last 12 months to retirement the fund gradually moves 25% out of the lower risk funds into cash ready to provide the tax free lump sum available to pension plan holders at retirement.

This diagram illustrates how lifestyling works up to your selected retirement date (SRD)

The advantages of using a lifestyle fund within your pension fund is that lifestyling provides peace of mind that your pension fund will be protected from falls in the stock market as you approach retirement. Lifestyling can be selected at outset and shouldn't cost you anything extra. The switching process is undertaken automatically so there is nothing more for you to do unless you want to take a more active approach and select your own funds.

Lifestyle options take away the decision making process of an individual. They will invest into a fund which in the early years will be allocated to provide growth and gradually reduce the proportion of the pension held within these higher risk funds. For those who wish to take an active interest in their pension fund a lifestyle option may not be suitable for them.

Please remember, for those who invest into Lifestyle funds, you should still review your investments on a regular basis, particularly if your financial needs or circumstances change.

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Every care has been taken to ensure the accuracy of information in this bulletin, by Kilsby Corporate Financial Planning Ltd accepts no responsibility for any errors which may appear, and articles do not constitute advice. If you have any comments or suggestions, please contact Helen Vincent, **helen.vincent@kilsbywilliams.com**

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