

PERSONAL ACCOUNTS – EMPLOYER INFORMATION

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INTRODUCTION

The Pensions Act 2008 will introduce compulsory pension contributions for employees and employers for the first time in the United Kingdom.

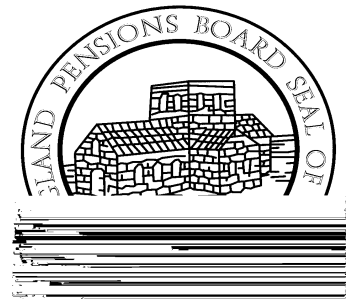
The act, given Royal Assent on 26th November 2008, creates a new pension arrangement originally known as personal accounts.

The act also creates a new non-departmental public body known as the Personal Accounts Delivery Authority

(PADA). PADA is responsible for the implementation of the personal account scheme estimated to begin in 2012.

The scheme has now been rebranded the National Employment Savings Trust (NEST) and this will replace the working title “personal accounts” going forward.

The Department for Work and Pensions (DWP) is responsible for the automatic enrolment policy and the



Pensions Regulator will manage employer compliance.

This newsletter is designed to give employers information on the impact of NEST.

WHAT IS NEST?

NEST is being created to provide a low-cost, independent, workplace pension scheme that any employer can use. It aims to provide access to workplace pension saving to millions of people – typically those on low to middle incomes.

The scheme is to be a national trust-based scheme and will not be sold by vari-

ous providers in the way Stakeholder pensions were established. The scheme will use auto-enrolment in line with workplace pension reforms.

The scheme will be open to any employer who wishes to join from October 2012.

PADA is also looking for a selection of employers to join the scheme prior to

2012 as part of the development process.

The scheme will have a minimum contribution rate of 8% per annum with at least 3% having to be met by the employer.

Key facts on NEST are highlighted on the left hand side of this page based on the current industry understanding of the legislation.

KEY FACTS

- **Simple and low cost (estimated 0.5% of members' funds charges per annum).**
- **No transfers in or out of the scheme permitted.**
- **Maximum initial contribution of £3600 per annum.**
- **Run on a not-for-profit basis by a Trustee Corporation.**

AUTO-ENROLMENT

The Pensions Act 2008 brings in sweeping workplace pension reforms which have set the requirement of auto-enrolment.

Auto-enrolment means that any eligible employee must be entered into a pension scheme immediately upon joining service.

If employees are not auto-enrolled into an employer sponsored scheme they must be auto-enrolled into NEST. The employer must contact the responsible body and join NEST, ensuring the minimum contribution levels are met.

Eligible employees are those over age 22 who earn above £5,035 per annum. This is

based on 2006/2007 levels and will be reassessed prior to the launch.

There will be strict timescales for operating auto-enrolment which will have an impact on employer's policies in such areas as waiting periods.

Many employer's human resources administration procedures are likely to have to be modified to ensure compliance with the new regime.

The employee retains the right to opt out of an employer sponsored pension scheme or NEST but this must be a specific decision by the employee and without persuasion from the employer. If an employer is found

to be discouraging members from joining a scheme stringent penalties may be applied by the Pensions Regulator.

The process of auto-enrolment must be repeated every 3 years for employees who opt out, who will then have to reaffirm their initial decision.

Therefore employers need appropriate administration systems to monitor members who have opted out of the scheme.

The auto-enrolment requirement is also extended to include temporary workers and this should be considered where appropriate.

KEY FACTS

- **Employees must be given access to a scheme immediately upon joining.**
- **Employees must not be dissuaded from joining any scheme.**
- **Auto-enrolment includes temporary workers.**
- **Members opting out must go through auto-enrolment every 3 years.**

QUALIFYING WORKPLACE SCHEME

If an employer operates a pension scheme this may qualify as an alternative to NEST. The member would not therefore need to belong to both NEST and the employer's scheme.

In order to be deemed a qualifying workplace scheme, an employer must firstly ensure they adhere to the auto-enrolment criteria described above.

In this respect no waiting periods can be operated under the employer sponsored scheme. This is one area which will affect many employers, should they wish to avoid providing NEST.

The only employees who do not need to be included in an employer's scheme or NEST are those who are under age 22, earn under £5,035 per annum

(2006/2007 levels) or who have actively opted out of the scheme.

If the criteria for auto-enrolment are met, the scheme must also ensure that minimum benefit levels are provided.

The minimum benefit levels are described in the table below:

TYPE OF SCHEME	MINIMUM QUALITY REQUIREMENTS
Defined Contribution (occupational or personal) pension scheme.	Employer contributions of at least 3% of qualifying earnings and a total contribution of at least 8% of qualifying earnings.
Contracted-out DB scheme	Automatically qualified by virtue of being contracted-out.
Contracted-in DB scheme	Must provide benefits from age 65 of at least 1/120th of the average of the last three year's qualifying earnings.

QUALIFYING EARNINGS

The contribution rates for NEST are to be based on what has been described as “qualifying earnings”.

The Government have defined qualifying earnings as basic pay, overtime and commission earned in a given year between the levels of £5,035 and £33,540 (2006/2007 levels). We understand that this figure is to be increased annually in line with National Average Earnings (NAE). Therefore the exact nature of this increase is still to be determined hence the reference to 2006/2007 levels.

There will also be a maximum

contribution of £3,600 per annum to NEST (based on 2005 levels) regardless of actual earnings. This figure will also be increased by NAE prior to the launch.

This framework has been set up to ensure the scheme remains focussed on the target group of low to middle earners.

The calculation method means that some defined contribution schemes that operate a contribution rate below 8% of pensionable salary will possibly still be classed as qualifying workplace schemes.

The worked example on the right hand side of the page highlights how this might apply.

It should be noted that operating a contribution rate below 8% would require constant monitoring to ensure that contributions do not drop below the minimum. Furthermore, this test must be passed for 100% of membership otherwise NEST will need to be offered.

It is important that employers give careful thought to the scheme contribution rate in advance of the introduction of NEST.

WORKED EXAMPLE

This calculation assumes pensionable salary is equal to gross earnings and the scheme contribution rate is 6%

Pensionable Salary =£15,000p.a.

Qualifying Earnings =£9965p.a. (15,000-5035)

Pension Contributions =

£15,000*0.06= £900

Qualifying Contributions =

£9965*0.08 =£797.20

TIMESCALES

MINIMUM CONTRIBUTION

- **Phase 1**
employer pays 1%
employee pays 1%
- **Phase 2**
employer pays 2%
employee pays 3%
- **Phase 3**
employer pays 3%
employee pays 5%
- **Notes**
This is based on a percentage of qualifying earnings commencing from 2012

The commencement date for NEST is 1st October 2012.

NEST will be available for some employers from 2011 as a “pilot” exercise for those wishing to take part.

From 1st October 2012 the employer duties are gradually phased in based on the size of employer.

The table below highlights the

dates which affect the majority of linked employers.

The exact commencement date for employers with less than 50 employees depends on the PAYE reference number of the employer.

The minimum employee and employer contribution levels are to be phased in from 2012 on a 3 stage basis.

NUMBER OF EMPLOYEES	COMMENCEMENT DATE
150-239	1st May 2014
90-149	1st June 2014
50-89	1st July 2014
<50	1st August 2014 to 1st January 2016 (exact date depends on employer's PAYE reference)

The phase dates are as follows:

Phase 1 - 1 October 2012 to 30 September 2016.

Phase 2 - 1 October 2016 to 30 September 2017.

Phase 3 - 1 October 2017 onwards

The minimum contribution levels are shown on the left hand side of the page.

If an employer chooses to use NEST then it may specify contributions above the minimum levels.

However the contributions must not exceed the maximum or minimum allowable at that time.

WHAT HAPPENS NEXT?

The question of what happens next for employers is widely dependent on the employer's attitude to the new scheme.

There are 3 options with regards to the change summarised below.

Provide future pension benefits using NEST

The employer could close their existing pension arrangement and offer NEST to current and future employees.

The employer should contact the provider of NEST and set up an arrangement as well as

closing the current scheme. Please be aware of potential employment contract and Section 75 implications of making such a change.

Provide future benefits through private pension

If an employer does not wish to offer NEST it can continue using the current arrangement to provide pension.

The current scheme may need to be altered to match the criteria of a Qualifying Workplace Scheme. This may involve removing any waiting periods and increasing contribution levels.

Provide future benefits on a mixed basis

If an employer wishes they may give members the choice to join NEST or the employer's own pension scheme. If an employer wishes to consider this option the employer should join NEST and offer it as an alternative to the current scheme. This may alleviate the need to review the current arrangement. However the member should not be discouraged from joining NEST at the first available opportunity if there is a waiting period in the employer's scheme.

POINTS TO CONSIDER

- Do you wish to offer NEST?
- Is your scheme a qualifying scheme?
- How do you make your scheme a qualifying scheme?
- What is the impact of making this change?
- When should any changes be implemented?
- What further information do you require?

FURTHER INFORMATION

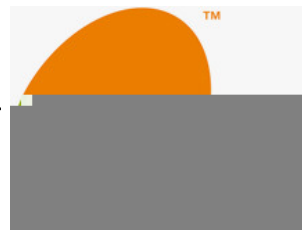
The information provided in this newsletter is aimed at all employers participating in schemes operated by the Pensions Board and the relevance of each section will depend on the individual set up of each employer. Further details on how NEST will operate will follow nearer the time of commencement. Further information can be found on the PADA website, the details of which are highlighted below:

www.padeliveryauthority.org.uk

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We are on the web!
www.cepb.org.uk

This leaflet is a summary of the provisions relating to NEST and cannot cover every aspect of the scheme. It represents a summary of the Board's understanding of current legislation but should not be relied upon as an authoritative statement of the law nor as constituting advice. Legal advice should always be sought in the event of any uncertainty.