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Pension scheme auto-enrolment guide to employers

Following the post-election review of the auto-enrolment legislation we now (almost) know the final procedures and that the original legislation has been left (almost) unchanged. However, until the government finally approves the proposals they could change.

The legislation - introduced by The Pensions Act 2008 - is intended to make employers responsible for ensuring that all employees contribute to their retirement income needs through the establishment of in-work pension schemes. The legislation stated '*The employer must make prescribed arrangements by which the jobholder becomes an active member of an automatic enrolment scheme...*'. In other words, employers must make available - AND enrol employees into - a pension scheme to which both they and the employee must contribute.

It is intended that this pension scheme may be either:

- set up by the employers themselves, or
- a scheme to be set up by the government - known as NEST (National Employment Savings Trust).

Under the proposals, the main rules will be as follows:

1. From 2012, initially large employers but eventually all employers, regardless of size*, will be required to auto-enrol their qualifying employees into a suitable pension scheme. The largest employers will be required to comply immediately and a programme to include small employers will be rolled-out from October 2012 to September 2016. This is known as "staging" and employers will be given 12 months notice by The Pensions Regulator of their requirement to comply.
2. Qualifying employees will be those who have been employed for at least three months, are aged over 22 and are earning at least the personal tax allowance (£7,475 in 2011). This is a higher income level than as was originally proposed.
3. A suitable scheme (one that passes the scheme quality test) will need to be in place or NEST could be used.
4. Qualifying earnings is all earnings (basic pay, bonuses, overtime etc)
5. The minimum contribution levels will be phased in to help employees and employers adjust to the costs of the reforms. From October 2012 the total contribution level will be 2% of qualifying earnings, with at least 1% coming from the employer. This will rise to 5% with a minimum 2% employer contribution in October 2016 and then rising again to 8% with at least 3% coming from the employer in October 2017. **
6. There will be a waiting period of three months for new employees, to see if they

remain in employment. This is to avoid the cost to the employer of short term employees. However, employees will not be able to opt-out during the waiting period. All employees must be auto-enrolled and only in the one month after enrolment, have the opportunity to opt-out.

7. Employers can certify that their scheme meets the minimum standards and this certification must be done on an annual basis.

Whilst employers may be concerned at the costs of implementation of auto-enrolment, there will be plenty of guidance available and some comfort in the knowledge that employers will be notified in plenty of time of their requirement to comply.

Where invited to do so, Menzies Wealth Management Ltd will review clients arrangements and provide advice in the run up to the start date.

If you would like to know more about Menzies Wealth Management Limited please call us on 01784 497100 or email us at advice@menzieswm.co.uk

*Single employee companies, where there is a single person director and there are no other employees are exempt.

** Where contributions are at least 9% of basic pay, basic pay rather than qualifying earnings can be used to calculate the contributions due.

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