Employers' Guide to Workplace Pensions

How they work and your duties as an employer

Forrester Boyd
WEALTH MANAGEMENT

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How they work and your duties as an employer

If you are involved with running a business you want to be able to give that your full attention without unwelcome distractions. However, the fact is, with ever increasing legislation, more and more owners and managers are finding that they are having to divert their attention away from their business and towards running and maintaining a workplace pension scheme for their employees. If you think the present rules are onerous (in the words of former US President Ronald Reagan) "you ain't seen nothing yet" as a new Pensions Bill was recently announced in the Queen's Speech.

Overall, this Bill is promising a stronger Pensions Regulator and the introduction of new criminal offences for failures to comply with pensions legislation; but with this comes increased bureaucracy. There will now be the requirement for employers to provide information on current and past employees to create a "pensions dashboard".

What are your duties as an employer?

As an employer, you are legally obliged to provide a Qualifying Workplace Pension Scheme for your staff, automatically enrol eligible staff and contribute a minimum of 3% of pensionable pay to this arrangement. This scheme must also meet minimum standards on charges, governance and investment options.

Automatic enrolment into a workplace pension

Employers must enrol staff into their Qualifying Workplace Pension Scheme once they meet the conditions for eligibility, which are:

+ Aged 22 or over
+ Under State Pension age
+ Earning more than £10,000 a year
+ Working in the UK

Employees can opt-out of the scheme, but cannot do so until they have been enrolled. It is important for employers not to be seen to be encouraging employees to opt-out in order to save contributions.

Types of Qualifying Workplace Pension Schemes:

+ Defined benefit schemes.
+ Defined contribution schemes.
+ Group personal pension plans.

Defined benefit schemes

This type of scheme is often referred to as a Final Salary Scheme and, if you are an employer operating this type of scheme, you will be well aware of the cost involved.

With interest rates and gilt yields at record low levels, a lot of employers have seen the deficit in their defined benefit schemes increasing alarmingly and with it, demands for ever higher levels of contributions.

This, together with The Pensions Regulator's "clearer, quicker and tougher" initiative, in which it has moved to focus on smaller schemes, especially those with large deficits and long-term rescue plans, has made the job of running these schemes more difficult for both employers and trustees.

Defined contribution schemes

These type of schemes are often considered to be easier to operate and administer for employers. Certainly, in most cases, the extent of liabilities is limited to the level of annual contributions.

However, The Pensions Regulator is taking an increasing interest in these types of arrangements. They are closely monitoring the annual Scheme Return to ensure that data held on members 'past and present' is reviewed regularly and that the default investment fund remains suitable.

In addition, there is now a requirement for a "Chair's Statement" to be published annually alongside other scheme information and then placed on a publicly accessible website.

It is little wonder then, that many individual employers and trustees are deciding to wind-up these type of schemes and replace them with a multi-employer scheme using a master trust or a group personal pension plan.

Group personal pensions and stakeholder pensions through your workplace

These arrangements have become increasingly popular with employers, as they escape some of the regulations placed on occupational pension schemes, such as defined benefit and defined contribution schemes. This is because there is no need for individual trustees, no need to submit an annual return to The Pensions Regulator and no contact required with past members who have left service.

However, where such schemes are used for auto-enrolment, there are still governance requirements and the employer has to ensure that the provider, charges and default investment fund remain suitable. These requirements are only likely to increase in the future as the provision of pensions for an aging population moves up the political agenda.

Other factors to consider

Salary exchange

Setting up your pension scheme so contributions are collected by "salary exchange" is usually the most tax-efficient way of contributing for both employers and employees.

This is because contributions are deducted from pay before it is assessed for both Income Tax and National Insurance; which means that both employers and employees pay less National Insurance Contributions.

However, there are pitfalls which need to be avoided. For example, gross pay after the deduction of pension contributions cannot fall below the minimum wage. Therefore, it is usually beneficial to take professional financial advice before setting-up or converting a scheme to this basis.

Staff engagement

Providing a pension for your staff is a costly business, so it would be satisfying for you to feel that your staff understand and appreciate it.

This can be done in a number of ways, but one of the best ways is to give staff the opportunity to discuss their pension funds and retirement plans in either one-to-one meetings or group seminars held by pension experts.

Group life cover

Many employers provide life cover for current employees, often linked with membership of the Workplace Pension Scheme.

Where there are a fairly large number of employees involved, the cost can be surprisingly inexpensive - usually a lot cheaper than providing individual cover, ensuring peace of mind for both you and your staff.

The future of your wealth

We will help you understand the choices available to you regardless of the number of staff you employ and pension arrangements you currently operate. To discuss which options will work best for your business and your employees retirement needs, please contact Forrester Boyd Wealth Management, we look forward to hearing from you.

Talk to us today

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THE PENSIONS REGULATOR IS THE STATUTORY REGULATOR FOR WORKPLACE PENSIONS. THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE AUTO ENROLMENT AND OCCUPATIONAL PENSIONS.