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Mattinson Ginty & Partners (Employee Benefits) Limited

A Guide to...

Personal Accounts - 2012

Special points of interest:

- Auto-enrolment
- Employer Contribution of 3%
- Employee Contribution of 4%
- Tax Relief of 1%
- Penalties for Non-Compliance

Everyone knows that the Olympics will be held in London in 2012 and Team GB will be trying to emulate the number of gold medals won this year.

There is another important event happening that year which could change the face of pensions and will have a big financial effect on businesses.

The Department of Work & Pensions (DWP) is introducing Personal Accounts which will mean that all employers in the UK will need to think through their responsibilities on pensions, whether they have 1 or 1,000+ employees.

The Pensions Bill, which was published on 5th December 2007, is likely to have Royal Assent by the end of 2008 with the new Personal Accounts being in place by 2012.

Auto-enrolment will be a feature of Personal Accounts, so doing nothing will NOT be an option. In addition, it is worth noting that non-compliance can lead to penalties of £50,000 or two years' in prison.

Your choice will be a plan of your own design which meets a minimum standard test laid down by the Government or, a default scheme operated by Government appointed bodies.

It is early days and so updates of this Newsletter will be issued as the process develops but to date the following is known.

Personal Accounts will force every employer to set aside a budget for pensions.

The proposed contribution rates are Employer 3% and Employee 5% (4% net of income tax relief)

Contributions must be based on a minimum of 'banded earnings', expected to be earnings between £96 to £644 per week or £5,035 to £33,500 per annum.

Pension Compulsion for the UK?

A total number of 9 million employees is the anticipated membership of the Personal Accounts.

The word 'employees' is, in fact, misleading - the law will include all 'job holders', so can include any self-employed workers you have.

What to do at this stage?

Formal discussions cannot be taken until the exact terms are known, but some background thoughts might be helpful.

In Australia, where they have 20 years' experience of such plans, there are millions of accounts 'lost', where employment has changed and contact lost with the employee.

MGP (Employee Benefits) Ltd
The Bank
209 Every Street
Manchester
M4 7EX

Tel : 0161 273 8273
Fax : 0161 273 7878
E-mail : enquiries@mgpeb.co.uk

In recent times, the UK Government's record on implementing large IT systems has not been that impressive.

Any plan set up for your Company should be regarded as a good investment and viewed as a valuable benefits by your employees.

If you set up a private plan as an alternative, you will have control of the process:

- You can arrange access for advice at worksite meetings, including individual surgery meetings, etc.

- You can customize the services to suit your employees and can utilise an existing administration service offered by trained staff, using highly automated and tested systems.

If a private scheme is your preferred choice, you should consider some of the issues, for example:

- New schemes can be set up ahead of the 2012 deadline, so that you can manage the new budget for pension, phasing in the contribution levels.

- If you already have a scheme, we can look to see if it meets the 'exemption scheme test', so that you may opt-out of the Government's default plan.

- Does your existing scheme cover ALL employees/job holders?

- Would you want the same basis for all employees/job holders?

Some of the terms of the new plan involve:

- You must auto-enroll all qualifying employees/job holders (those aged 22 or more and having at least 3 months' service with your Company).

- This includes self-employed people and agency workers, etc.

- Employees/job holders can decide to opt-out, but the auto-enrolment system must be repeated every 3 years.

- A default investment fund must be established.

- The minimum contribution of 8% of banded earnings must be made.

- Personal Accounts will have a maximum contribution—possibly £3,600 per annum.

- Low admin costs are envisaged under the Personal Accounts (yet to be agreed upon) and we will need to consider these charges in any form of scheme design for your Company, allowing for the fact that you might require greater flexibility in your plan.

MGP's View

Personal Accounts will be the default option for an employer whose current pension scheme does not meet the minimum standard or does not operate a pension.

An employer going down the Personal Account route will be fully responsible for collecting and paying contributions and providing information to employees. Information can be given but, not advice.

Employers will be fined for non-compliance and can be sued if advice is inadvertently given.

Can you afford to take that risk or the increased administration burden that will come with Personal Accounts?

Our view is that employers who already have a pension scheme in place should take steps to ensure that the existing scheme meets the minimum standard to gain an exemption from Personal Accounts.

Employers who are not contributing to a personal pension or stakeholder scheme, have just over 3 years to make arrangements or be faced with a 3% increase in costs potentially, plus increased administration.

MGP can help to make sure your pension scheme meets the minimum standards. Your employees will view their pension arrangement as a valuable benefit provided by their employer. This often helps to attract and retain staff.

If your scheme does not meet the minimum standards, your employees will be auto-enrolled into the Personal Accounts.

Don't be pushed into Personal Accounts where you have NO control or receive NO credit from your employees. Make sure that you have a scheme in place that meets the minimum standards to be exempt.

Your usual MGP Contact will be in touch with you shortly to discuss Personal Accounts in more detail and to advise on your best course of action going forward.

If you would like to speak to someone in the meantime please feel free to contact us.