

Auto-Enrolment and Personal Accounts – Update

This note is provided as an update on some aspects of the Government’s proposals on Auto-Enrolment for workplace pension arrangements as well as its Personal Accounts Scheme (recently rebranded to “National Employment Savings Trust” or NEST).

We recommend that it is read in conjunction with the information available on this topic at the Barnett Waddingham website.

National Employment Savings Trust (NEST)

NEST (formerly known as Personal Accounts) was announced as the new name of the Government’s national workplace pension scheme on 7 January 2010 and will be launched in 2011.

It is designed to meet the needs of low-to-moderate earners and their employers. Employers will be able to use NEST or another Qualifying Workplace Pension Scheme (QWPS) to fulfil new auto-enrolment duties due to come into effect from 2012.

NEST will be established as a trust based defined contribution scheme and will be run by a not-for-profit trustee corporation called NEST Corporation.

The minimum contribution into the scheme will be 8% of an employee’s Qualifying Earnings, made up of a member contribution of 4%, an employer’s contribution of 3% and 1% from the Government in the form of tax relief.

It has been proposed that the minimum contribution rates will be phased in as set out in the following table. The 1% minimum employer and 2% minimum total contribution requirement is expected to be staged over a 4 year period commencing from October 2012, beginning with the largest employers.



	Minimum Employer	Minimum Total
Oct 2012 - Oct 2016	1%	2%
Oct 2016 - Oct 2017	2%	5%
From October 2017	3%	8%

Qualifying Earnings will be total earnings (i.e. not restricted to base salary), which fall within an earnings band (£5,035 to £33,540 in 2006/07 terms). The upper and lower earning limits will be reviewed each year.

Other proposed features of NEST include:

- Contributions will be subject to a maximum of £3,600 pa; and
- No transfers in or out will be permitted.

Exemption from NEST

Employers will be exempt from offering membership to NEST if they offer an alternative QWPS, which reaches the following prescribed requirements:

Defined Benefit Schemes: Contracted Out schemes will be exempt automatically. Contracted in Schemes will be exempt if accrual rates are at a level of at least 1/120ths of qualifying earnings.

Defined Contribution Schemes: The total contribution to the scheme must be at least 8% of Qualifying Earnings, with at least 3% being paid by the employer.

Employers will be required to register their QWPS with The Pensions Regulator.

Auto-Enrolment

This new employer duty is planned to come into force from October 2012. Under this duty, employers will have to:

- enrol workers into a QWPS;
- choose the qualifying scheme(s) they adopt to discharge the newly arising duty; and either
- make a minimum 3% contribution towards a defined contribution scheme (based on Qualifying Earnings) or the NEST; or
- offer membership of a defined benefit scheme which either has a contracting out statement or meets the test scheme standard.

Employers will also have an ongoing duty to maintain qualifying pension provision for workers who;

- are already members of qualifying schemes; or
- become members of such schemes.

Phased Implementation of Auto-Enrolment

Although auto-enrolment comes in from October 2012, employers' own duties will be phased in over the following four years. The phasing in will be based on the size of the employer, typically by PAYE size.

Opting Out of Auto-Enrolment

Workers will be able to opt-out of their employer's scheme if they choose not to participate. Workers who give notice during the designated opt-out period will be put back in the position they would have been in if they had not become members in the first place, which may include a refund of any contributions taken following automatic enrolment.

For more information

For more information we recommend visiting either the Government's Pensions Advisory Service website or the Barnett Waddingham website at the following addresses:

www.pensionsadvisoryservice.org.uk/employer-guidance/auto-enrolment/advice-for-employees

www.barnett-waddingham.co.uk/employee-benefits/auto-enrolment-and-personal-account-schemes/

Alternatively, please contact your regular Barnett Waddingham consultant.

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