

Don't mention the 'P' word!

Martin Sutherland, a Business Financial Consultant for the Finance Planning Group (FPG) takes a broad 'workplace' view at the new Pension changes on the horizon.

Mention the words "Automatic Enrolment" to anybody in business right now and you'll either be met with a blank stare, or perhaps "were they on Britain's Got Talent?" or just maybe "is it something to do with pensions?"....

Well the truth is, it's coming to a town near to them soon, so they really should do something about it – anything than rest on their laurels...or should I say 'nest' on their laurels!



DWP, PADA, DC, NEST, GPP, AE, GSIPP, SPA, TPR (no, I didn't just lean on my keyboard); these assorted pension acronyms make up some of the ingredients which when mixed together and baked in a Government dept until October 2012, will then be served up for all Businesses to have a large indigestible slice.

And now for the serious bit! But stay with me – it does get riveting towards the end.

At the moment this is how we see it unveiling - however in June 2010 the **DWP (Dept of Work & Pensions)** announced that the new Coalition government is to conduct a speedy review of how best to support the implementation of automatic enrolment (AE) into workplace pensions set out by the previous government.

So they are committed; it will happen, but the parameters may change.

The DWP estimate that around 7 million people are not saving enough for retirement.

The Personal Accounts Delivery Authority (PADA), a non-departmental public body, has been established to develop a national trust-based registered pension scheme.

Once established PADA, will hand over to a trustee corporation called the **National Employers Saving Trust (NEST)** to run. The NEST scheme will be designed to complement other pension schemes and will be available to be used by an employer, regardless of size.

Put simply, the Government's aim is for savers to be better off in retirement having saved.

An employer will have to choose which qualifying scheme* to use:

1. NEST scheme
2. Occupational pension scheme, or
3. «Workplace pension (e.g. GPP or GSIPP)

*A qualifying scheme must be registered with the Pensions Regulator and must make automatic enrolment available to eligible employees.

Automatic Enrolment will commence in October 2012 with a staged rollout; this will be based on employer size with the largest employers to be subject to the requirements first. The intention is to give employers the opportunity to adjust gradually to the costs of the reforms.

Employers, once registered, will have to pay contributions of 1% between October 2012 and October 2016, 2% between October 2016 and October 2017 and 3% from October 2017 onwards.

From 2012 there will be an obligation on employers to auto-enrol employees into a pension scheme. The intention is that employers will be responsible for auto-enrolling their eligible employees who are not already a member of an existing **workplace pension** arrangement.

Employees aged between 16-22 and 65-75 have the right to opt-in, and the employer will have to contribute providing the employee has qualifying earnings.

An employee could exercise their right to opt-out up to 2 months from being eligible, or conversely, in as little as one day providing all the necessary documentation has been passed across and completed. Their employer must refund contributions deducted during this period to the individual.

Employers will not be able to hold on to opt-out letters because they may be tempted to exert undue influence on



their employee to opt-out. Instead, the employee will need to approach the pension scheme directly to obtain the opt-out letter, complete it and then pass it to their employer.

The Pensions Regulator (TPR) will be responsible for compliance. TPR will monitor record keeping, requests for production of records, late payment education and fines, as well as investigating employee complaints – they will have up to 6 months to complain to TPR.

Failure by the employer to remedy non-compliance may then lead to a whole smorgasbord of escalating fines: 1-4 workers £50 per day up to 500+ workers £10000 per day!

So what do we do?

16 years experience in setting up and servicing Group Pension Plans for companies from 5 – 500 staff has taught me one thing: there is an ‘Opportunity’ here for Employers and Employees alike.

I’ve found that Employees may not appear to ‘value’ pensions, however drill down and you usually find that it’s because of a basic fundamental lack of understanding and dare I say it, the subject is not the most interesting topic to be discussing with your partner over dinner in the evenings!

I’ve often found the word ‘Pension’ in itself to be quite emotive, an emotional barrier; it conjures up media images of historically failed schemes and the complicated issues of old Defined Benefit occupational schemes – it’s the main reason why staff body swerve the pension question.

The affordability question, although an important factor, is not always the main hurdle that stops staff joining! Education! Education! Education!

With my Group Pension Plans, I have found it quite useful to do ‘Pension Clinics’ for the staff. Spend half a day on site and speak with existing and potential new

joiners about various pension queries, either in clusters or preferably in one-to-one sessions (easier for them to ask you, how does Divorce impact on my pension..!).

I’ve often found that by empowering staff with even a little knowledge on pensions in the safety of their workplace, this education will allow them to make better informed financial decisions on all financial matters and a happier workforce makes for a happier employer.

So perhaps get ahead of the game and engage employees – seek their views and opinions.

Bunch of questions Employers should be asking here are:
Our current Pension Plan: have we reviewed ever?..never!!

What Governance is in place for Investment options etc?

Is our present schemes Fit for Purpose?

Are there any alternatives?

What is everybody else doing?

Has anybody asked the staff what they think?

Is our current benefits proposition robust enough?

2012 is the Business Pensions Olympics – so we all have to get in training now!

Pensions have to be positioned to be more appealing and communicated clearly to staff AND bosses – that way we all have a better chance of getting personal bests.

It’s not for us mere mortals to say if Automatic Enrolment makes sense; it’s for us to find a positive way to make it work.

Do mention the ‘P’ word... it may just stand for Progress!
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An SME Perspective

Abdul Rahim, Platinumlinks Ltd MD

As an SME, staying one step ahead is second nature. Survival is intrinsic in the entrepreneurial DNA. In the current climate it is even more important to keep moving, as the alternative is to go out of business. We could all easily list 10 things that would make our lives much easier as small businesses (access to finance, access to public procurement opportunities, being paid on time etc etc).

That would only make us look downwards and backwards. How do we look upwards and forwards in this economic climate? What is there to be positive about?

The first step is to analyse the backdrop that we have, both positive and negative. Then look at how you (as the business owner or manager) have arrived where you are at now.

There is a lack of finance; sales are going down; payments are taking longer; bad debts may increase (as clients go bust); government cuts are looming (most cuts have not happened yet; surprised?); taxes increasing; job losses coming through and a lot of people fearing for their jobs (so consumer spending likely to reduce); youth unemployment at its highest; wages frozen or rising very slowly; benefits being cut; insolvencies and bankruptcies rising.

On the positive side, the economy is growing; financial institutions are much stronger than the last couple of years; inflation is low (though rising); interest rates are low, and for SMEs, competition might reduce; there are talented people

looking for work (competition amongst potential employees); promise of more public sector contracts, corporation tax being reduced.

Let’s look back over the last 24 months. When Lehman Brothers teetered and fell over in 2007, what were your thoughts about the future of your business? When the government started printing money (quantitative easing) or when Northern Rock was nationalised and Bradford & Bingley was almost bust did you start to worry? What about when there was a shotgun wedding between HBOS (Halifax) and Lloyds TSB? News that RBS was to be part nationalised or when MFI, Woolworths and others went bust, did you start seriously looking at your own business. Did you seek professional advice? Even if you were doing well at the time?

The point I am trying to make, is that although it is difficult to predict the future, there are signs in the backdrop which give us an indication as to how we might position ourselves.

Let’s now look forward. What is the next 3 months going to be like for you? What is your pipeline like? What changes can you make to your business, starting now? What are you going to do to keep your most important clients? When was the last time you spoke to your most important clients? The same applies for the next 12 months, stop planning and start doing...Now!