Pensions 2012: What Every UK Business Should Know

By Sarah Coles

published on BNET.com 7/01/2009

There is one point at which we all care about our pension — retirement. But by then it's too late. Fearing we are sleepwalking into a less-than-comfortable retirement (or a lifetime of work), the UK government has made auto-enrolment the default starting point for employees.

As of 2012, all UK company staff will be enrolled into a company pension scheme or the government-led Personal Accounts. Inspired by Richard Thaler and Cass Sunstein's best-selling book, Nudge, the government has tweaked the 'choice architecture' of pensions to take advantage of our tendency to inertia (once enlisted in a fund, we are likely to remain that way.) This will have a significant impact on company costs. And the task of explaining how it all works will fall to team leaders.

Key Stats

- **Start date:** 2012
- **The rules in brief**: Automatic enrolment in occupational pension schemes or government-managed Personal Accounts. Compulsory contributions, phased in. By 2014, employers will pay out three per cent and employees five per cent.
- **Impact on business:** From current take-up rate of around 64 per cent of employees to around 90 per cent.
- **Find out more:** the FSA, the NAPF, the Pensions Regulator.

Why Act Now?

Business leaders have more pressing concerns and may feel 2012 is still a way off. But acting ahead of the regulations gives you time to communicate the changes fully and make adjustments gradually. Reinsurance and risk expert Benfield, which operates a group personal pension scheme, has prepared for 2012 by introducing auto-enrolment for staff well in advance. It means the business will have dealt with any difficulties well before the regulation comes into force.

Companies will be looking at different ways of offsetting the costs of enrolling new members and defined benefits schemes (such as final salary) may prove too costly.

Paul Macro, a senior consultant with human capital specialists Watson Wyatt, explains: "Organisations that still have final salary schemes open to new entrants and future accrual are looking at ways to control and cut costs. Some are going to defined contributions schemes like stakeholder [schemes]. In 2012 they also have the option to use the government scheme: personal accounts."

Some employers may look to strengthen their scheme to prepare it for an influx of members, meaning that managers may be required to make extra contributions to keep hold of a valuable pension.

Supermarket giant Tesco has around 250,000 employees with only 153,000 members of its generous final salary and career average pensions, so the bill for full participation could be massive.

It has asked employees to contribute more of their own money. Those in its career average scheme will pay five percent instead of the current 4.75 percent and those in the final salary will pay seven percent, up from six percent. Anyone unwilling to pay more has been given permission to opt out of the scheme.

Why it matters to you

Occupational pensions have been a big part of the benefits package employers can offer top talent, particularly in smaller businesses. One-third of employees surveyed for the National Association of Pension Funds for its Workplace Pension survey in April claimed the pension their employer offered was the most important benefit, beyond bonuses and holidays.

Consider your arrangements. Take advantage if the business's current scheme is generous. It may be possible to buy extra years in a final salary pension, or make additional contributions to a defined contribution pension.

Some companies may 'level down' to adopt personal accounts as a less generous option, but the NAPF reckons this is unlikely to happen unless the government swamps existing occupational schemes with so much red tape that companies seek out the 'easy' option.

If your company opts for the minimum requirement for new pension enrolments, it will hardly secure a comfortable retirement.

So you may want to look at alternatives to boost your retirement fund -- additional contributions to the scheme, a stand-alone pension such as a self-invested personal pension or some other sort of investment, such as an individual savings account (ISA).

Even where organisational pensions are less generous, managers will still have to make contributions -- everyone will.

This is going to have further implications for the entire workforce. Without them consenting or requesting it, a chunk of their salary will disappear overnight, for which they won't get immediate benefit.

What managers need to know

Steve Charlton, a principal at Mercer HR Consulting, says "The government introduced the rules, but it's the managers who will have to face irate staff and the HR department that will have to deal with the phone calls and complaints."

So it's worth beginning your communications campaign now. What decisions have to be made, and by whom? Create a timetable and decide who should be involved at every stage. Let your teams know what's coming, explain the implications to them as individuals and ensure everyone understands what to do if they want to opt out.

Employees have a natural tendency to switch off when anyone mentions pensions, so vary the media you use to get your message across -- calculators on the company intranet, posters and leaflets, online games and social media tools such as Twitter.

Line managers should be briefed in advance and it's worth holding an 'objections' session so they can offer clear and accurate responses to any questions.

If your business isn't active in ensuring you're ready, ask for training. The company can offer 150 of pensions-related financial advice tax-free, so this might be the time to arrange a session with an independent financial adviser.

At the very least, get your human resources or pension departments to sit down with key managers and run through what the company will be doing and how it is going to affect their teams.

Higher earners beware

Don't forget the change to higher earners that comes into effect from April 6, 2011. Employees earning more than 150,000 will no longer get higher rate tax relief on their pension contributions (currently 40 percent) -- it will be restricted to base rate relief (20 percent).

From 2011 it may actually not be worth paying into a workplace pension at all -- you could end up paying 20 percent tax on the way into a scheme, and later 50 percent tax on income, too.

Nor is there any chance of high earners taking advantage of schemes in the intervening months either, because the government has limited top-ups, too. Speak to an adviser, or the HR department, about what is possible under the rules.

The new rules in 2012 are supposed to make a change for the better. When they've had time to bed down, it may well be welcomed. In Australia, a similar set-up has been running for years and has become part of the fabric of pay and benefits. People expect monthly deductions, and look forward to their annual statements, which show the nest egg they are building for retirement. In the end, employees will be better off. They just have to get over the 2012 hurdle.

Copyright © 2009 CBS Interactive, Inc. All Rights Reserved.