

New Employer Duties



Members of the London HR Connection meet monthly to network with their peers and hear from leading figures in the industry. Over breakfast at April's event members heard from Robin Hames, Head of Technical, Marketing and Research, Bluefin Group, who entertainingly introduced the new set of employer duties regarding workplace pension schemes that begin in 2012.

As Robin explained, these new duties are often understandably confused with the launch of the government-backed National Employment Savings Trust (NEST). While the headlines may have concentrated on this new pension scheme option, it is the duties relating to automatic enrolment, employee communications and record-keeping which are actually likely to cause HR departments the biggest headache. They will require careful advanced planning regardless of the type of pension scheme chosen.

The key requirements to be imposed by the latest pension reforms are:

- To automatically enrol eligible employees into a pension scheme with a minimum level of employer contribution
- To re-enrol employees who opt-out of the scheme every three years thereafter
- To provide information and access to the scheme for employees who fail the eligibility criteria
- To maintain records of the whole process and register with the Pensions Regulator.

The legislation will apply from October 2012 for the largest employers and all employers with at least 50 employees will be within scope by July 2014.

So what do these duties involve?

At the point where an employer is obliged to commence auto-enrolment, they will have to have in place a process, probably involving both HR and payroll systems, which is able to quickly identify each category of employee, as defined by the legislation, that is working for the company. The categories of employee will be based on a combination of

residency, age and level of earnings.

They will then have to supply each employee with the information relevant to their circumstances and, where eligible, auto-enrol them into the pension scheme with a minimum level of supporting employer contributions.

These minimum amounts will be phased in over a period of four years, culminating in employers having to contribute at least 3 percent of each eligible employee's 'qualifying earnings', out of a total of 8 percent that must be contributed in total. The minimum amount rises if a three month probationary period is imposed.

Enrolled employees will then have one month in which to opt out of the scheme; for those who do opt-out, any deductions from pay must then be refunded and a claim made to the scheme provider or trustee. Subsequent new employees must also be automatically enrolled into the pension scheme.

Furthermore, all employers will be obliged to re-enrol those employees who choose to opt-out. This re-enrolment exercise will have to be carried out on every third anniversary of the employer's initial automatic enrolment date.

Penalties will be imposed on employers who fail to comply, or who actively encourage employees to opt out.

The consequences and complexities

An obvious potential consequence is the rise in pension costs borne by the employer. Auto-enrolment is likely to drive up employee participation rates.

But the administration issues are likely to cause organisations many headaches unless they have planned well in advance.

Equally, many decent existing pension schemes may fail the minimum requirements as the definition of 'qualifying earnings' will include overtime, bonus and commission whereas most pension schemes

operate on basic salary only. So scheme structures may need to be reconsidered and consultation with employees may be required.

As a starting point, all senior HR professionals should consider drawing up an initial impact assessment summary to discuss with their boards. While 2012 may seem a long way off, if the administration is to be retained in-house or shared with outsourced payroll companies, there are likely to be a number of IT projects required to support the process; these will need time both time and resources to deliver solutions to the business's need to meet its new duties.

Member Feedback:

Kim Brosnan at Which? said that: "the presentation was very accessible and easy to understand - no mean feat when it comes to pensions!"

The SQS Group's Kristy Pownall added that it was: "very useful. The speaker presented the information at the right pace and at the right level. It gave a good grounding on how we might actually go and start to look at pensions in our organisations."

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