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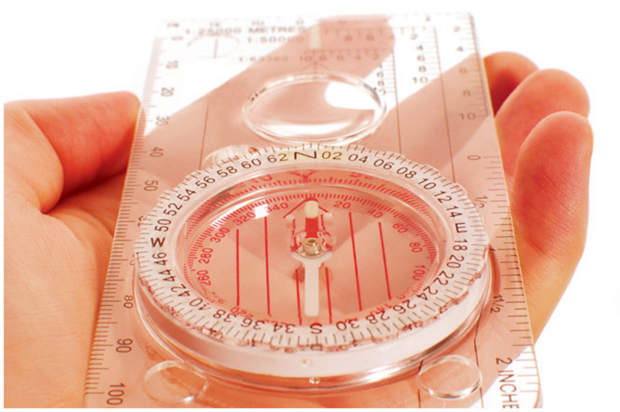
Workplace Pension Reform

Completing the Picture

Jane Beverley



Completing the picture

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Recap

- Jobholders - workers earning over £5,035 between 16 and 75
- Employers have a duty to automatically enrol jobholders aged between 22 and SPA into a qualifying scheme
- Qualifying scheme
  - Contracted out defined benefit scheme
  - Contracted in defined benefit scheme meeting test standard
  - Defined contribution scheme providing minimum employer and total contributions (including personal accounts scheme)
  - Certain hybrid schemes

Current consultation

- Second consultation on employer duties regulations
- Also response to first consultation on auto-enrolment regs

- 280 pages including RIA
- 6 sets of draft regulations & guidance on certification

- 6 week consultation for ‘early certainty’ for external suppliers

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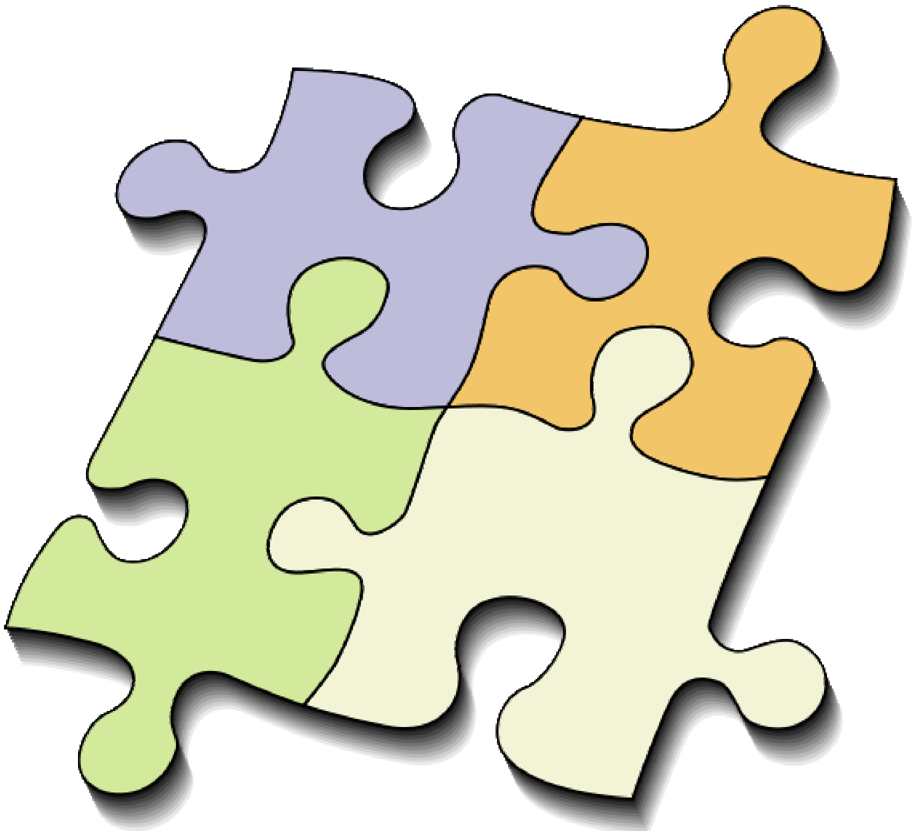
Key proposals

- Implementation of employer duties
- Auto-enrolment
- Certification
- Hybrid schemes
- Non-UK schemes
- Regulation & compliance



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Implementation of employers' duties

- Staged automatic enrolment October 2012 – October 2015
- Staging in 25-30 groups by size of employer
- Large and medium sized (50+ employees) over first year
- Small and micro employers over next 2 years
- Random group of small and micro employers sooner
- Employers can request early auto-enrolment

- Defined benefit & hybrid schemes can defer to October 2015

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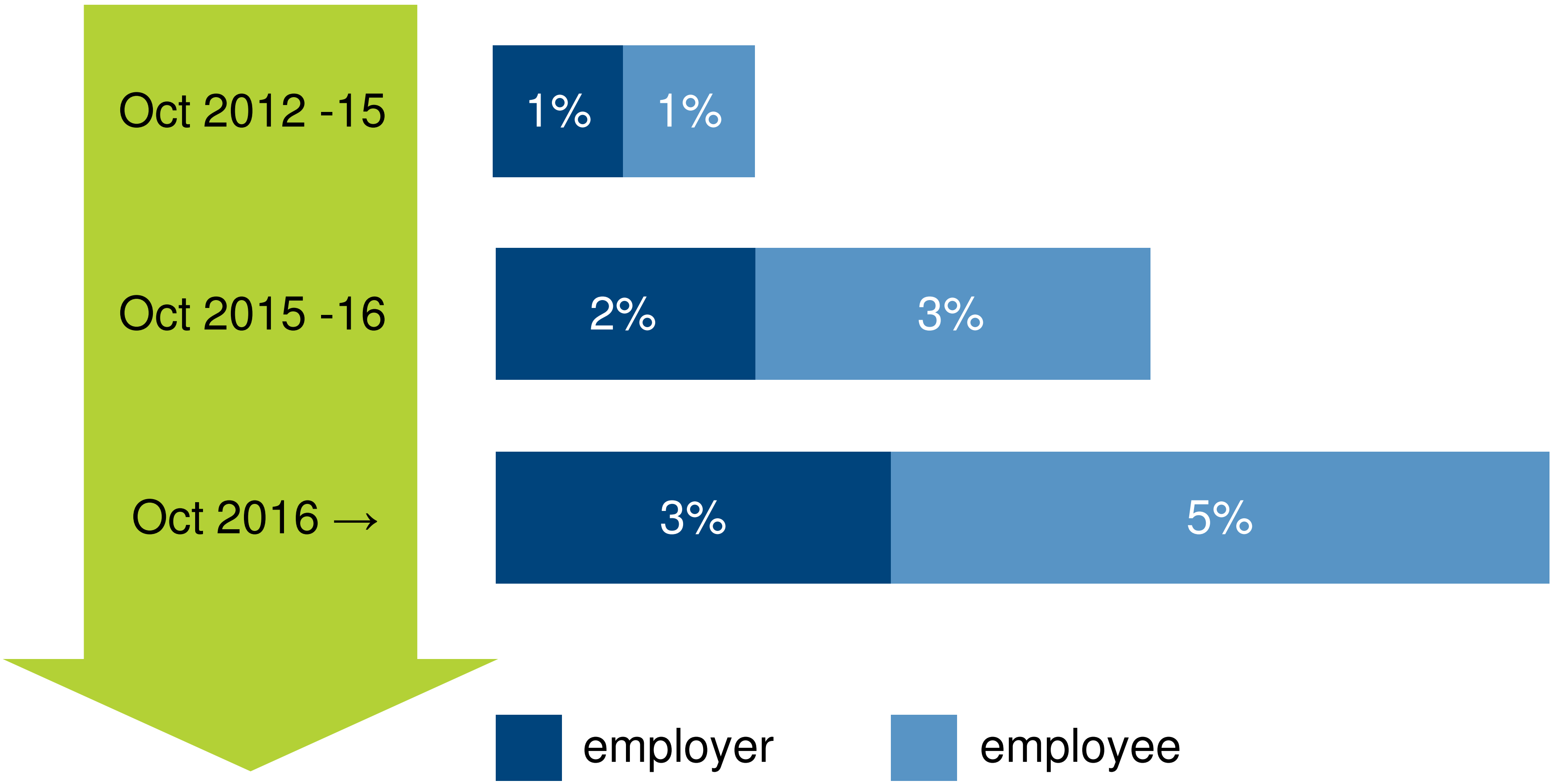
Implementation of employers' duties



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Automatic enrolment

- Definitions of ‘pay reference period’
  - Wage period/1 week to trigger auto-enrolment/calculate conts
  - 12 months for ‘accidental jobholders’
  - 12 months for checking scheme qualifies
  - 12 months/shorter period chosen by employer for certification
- Opting in to voluntary saving – written notification
  - Jobholders outside 22-SPA age range – employer contribution
  - Workers earning less than £5,035 – access to a registered scheme

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Automatic enrolment

- Automatic re-enrolment
  - 3 years from employer's original staging date
  - Excludes jobholders who opted out in last 12 months

- Changes to original regulations
  - One month 'joining window' (was 14 days)
  - Automatic enrolment cannot be postponed for short term workers
  - Employer has until 19th day of second month after auto-enrolment to pay contributions to scheme

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Certification

- Defined contribution schemes
  - Self-certification where expected to meet quality requirement
    - Check beforehand that expected to qualify
    - Check afterwards whether quality requirement met
    - Make good shortfall where
      - Shortfall greater than 5% of expected contributions
      - More than 10% of jobholders suffer shortfall
      - Any jobholder suffers shortfall more than once in 2 years
  - Consultation on draft guidance

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Certification

- Defined benefit schemes
  - Contracted out – reference scheme test
  - Contracted in – test scheme standard
    - Pensions better in every respect – employer can self-certify
    - Trade off between earnings and accrual definitions – self-certify
    - Any test of actuarial equivalence – actuary must certify
  - Career average – excluded if no provision for revaluation
  - Draft guidance for employers and actuaries

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Hybrid schemes

Hybrid scheme	Quality requirement
Contracted-out	Reference scheme test
Underpin schemes	Either DB or DC rules
Sequential (nursery scheme)	Both DB and DC rules apply
Self-annuitising	DC rules apply
Cash balance	DB rules apply, modified
Final salary lump sum	DB rules apply, modified
Combination (top-up schemes)	Aggregate DB and DC rules

Hybrid schemes

- Cash balance
  - 16% of qualifying earnings with statutory revaluation; or
  - 8% of qualifying earnings with 3.5% real return

- Final salary lump sum accrual
  - 16% of qualifying earnings with statutory revaluation

- Has the DWP captured all types of hybrid scheme?

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Non-UK schemes

- Non-UK schemes allowed to be qualifying schemes
  - Must provide income in retirement; and
  - Must be regulated
- Where non-UK scheme not eligible for UK tax-relief
  - Employer has to make up missing tax
- Is this the right balance?

Registration and compliance

- Registration
  - Register with TPR within 9 weeks of staging date
  - Reregister every 3 years
  - Keep records for 6 years

- Missed contributions
  - Employers required to pay missed workers' contributions after 3 months
  - Interest of RPI + 4.9% ("estimate of long-term equity return") on late contributions

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Registration and compliance

- Penalties
  - £500 initial penalty
  - £50 - £10,000 daily escalating penalties (based on employer size)
  - £1,000 - £5,000 for prohibited recruitment conduct

- Inducements
  - Complaint must be made in 6 months
  - TPR can look back over 12 month period when initiating review

- Public disclosure protection for whistleblowers

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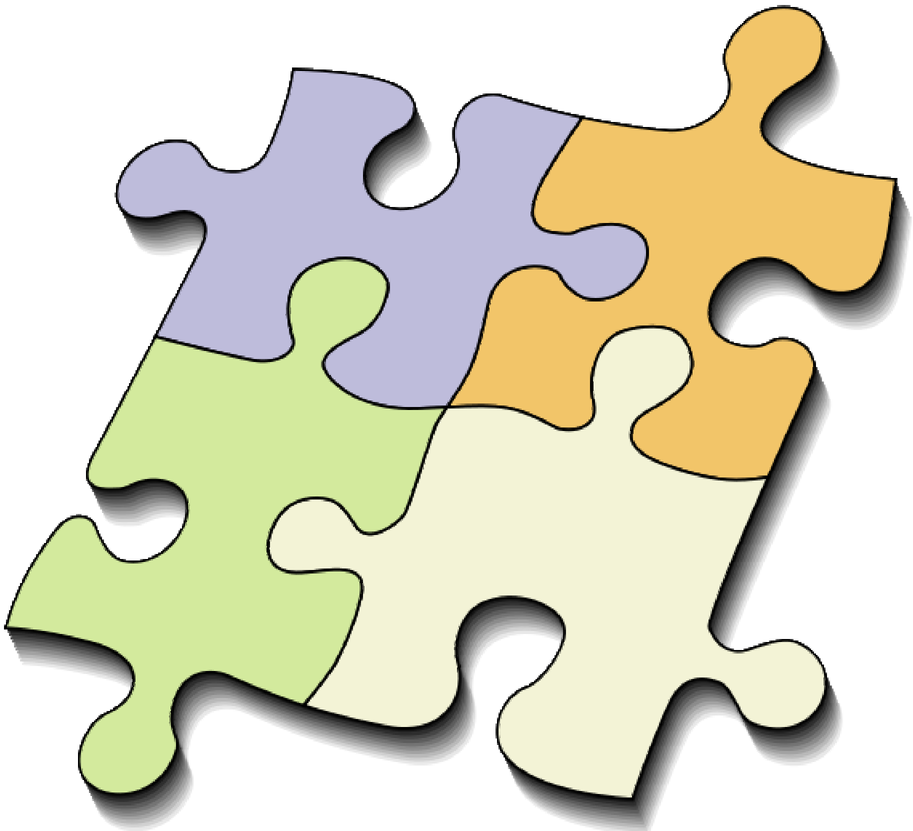

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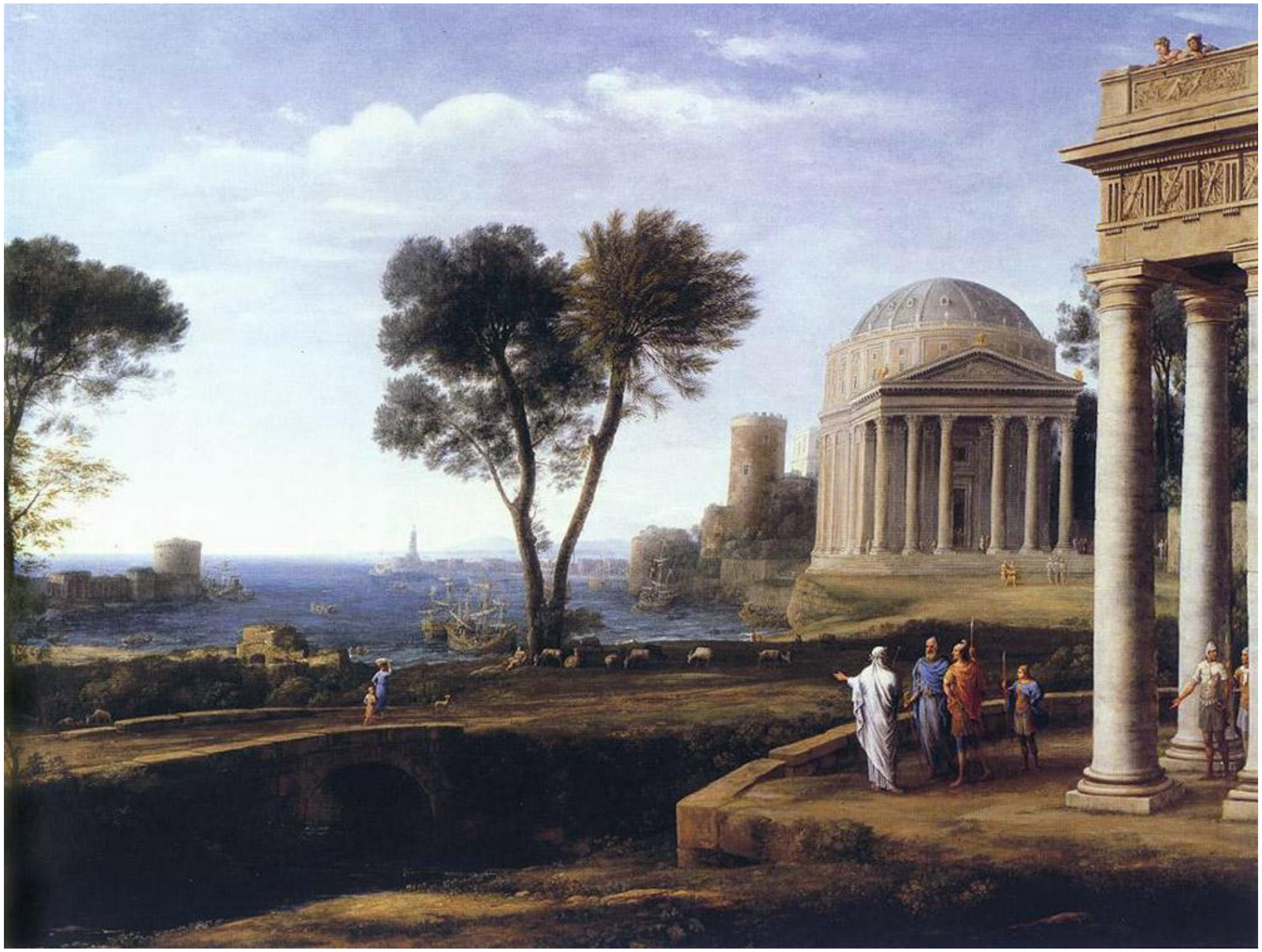

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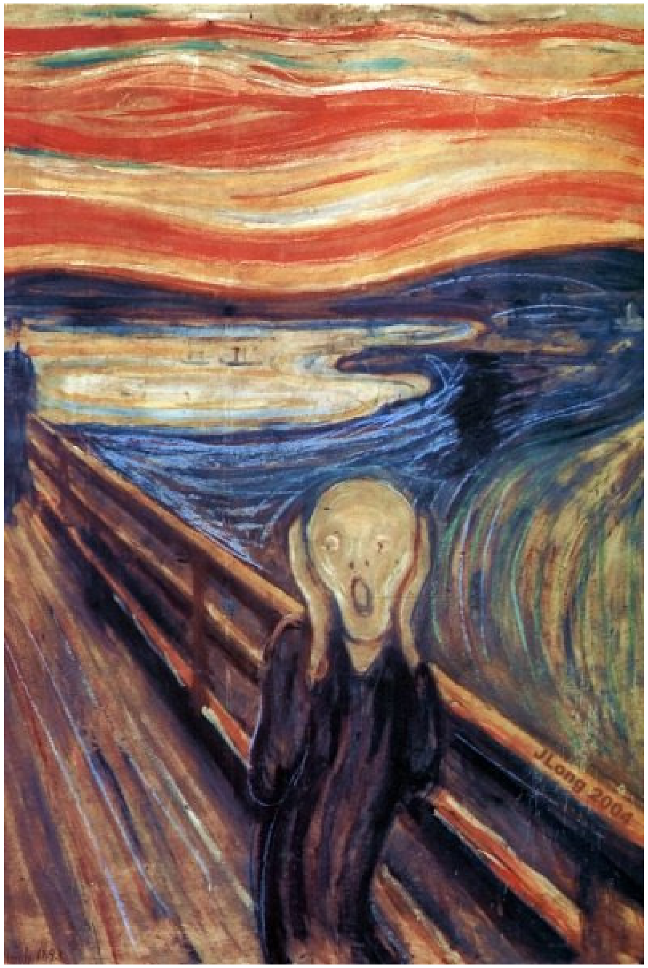

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