

Pension Reform

You will I am sure be aware that there is a looming pension crisis in this country and all the major political parties agree that pension reform is essential. In the past decade we have had various initiatives to try and stimulate more pension contributions such as Stakeholder pensions and the 2006 Pension Tax Simplification reforms. There have also been reforms introduced to the State Pension schemes with more to follow.

However, perhaps the biggest and most important reform is just around the corner. The above mentioned initiatives have largely failed to encourage the Great British public to contribute to a pension scheme and so the Government are going to the next obvious step. From April 2012, pension contributions will be compulsory for all employees and employers. For employees who do not have an employer's pension scheme available to them, a new scheme (largely based on the existing personal pension rules) called **Personal Accounts** will be introduced to accept their pension contributions. A new body has been formed, PADA (Personal Accounts Delivery Authority), and they will be responsible for delivering this new scheme. However, whilst the topic of Personal Accounts has been the source of much discussion over recent months, we believe that it will be Auto Enrolment that should and will focus most employers' minds.

Under **Auto Enrolment** rules, employees will be automatically enrolled into a pension plan – it will not matter whether that scheme is a Personal Account, a personal pension or a group personal pension. If the employee does not want to join a pension scheme they will have to elect to '**opt out**' of pension contributions (this decision will be reviewed periodically with the objective to ultimately auto enrol all employees). If an employee does not elect to opt out the employer will also have to make a pension contribution. It will be the employers' responsibility to deduct contributions from their employees and make sure the contributions goes to the relevant pension scheme and it will also be employers who are saddled with the task of ensuring that their employees are enrolled or opted out. Not only will they have to find extra revenue to make an employer pension contribution to their employees pension fund, they will also face the prospect of **fines** and even the threat of a **prison sentence** if they or their employees breach the rules.

Many employers and business owners will not be aware of any of this, and as these rules will be with us **with in 3 years** it will have a major impact on their business plans. These changes are clearly going to affect you. Some employers with a sceptical side may be tempted into thinking that this will not happen because the Tories will win the next election; be aware however, that there is cross party agreement in this area. Further more the rules providing the framework for Auto Enrolment into Pension have already been introduced in the Finance Act December 2008.