

From Ian Jenkins, Head of Employee Benefits, RHG/ Richmond House Group

(1) Do employees generally agree that a compulsory pension scheme is necessary?

Employee membership of the scheme is not actually compulsory. It is the employer's responsibility to automatically enrol employees, who can then choose to opt out of any pension scheme. In my experience, many people have inadequate planning for the provision of a suitable income on retirement. A state pension is the bare minimum and a lot of people who now exist on the state pension alone are barely above the poverty line. Fortunately a lot of people understand that they need to address the problem before it's too late. Automatic enrolment seems to be a sensible way of addressing the issue. The previous stakeholder legislation proved highly ineffective because no one had to be enrolled as a member and no one had to make a contribution.

[2] Will costs in small businesses increase with the new compulsory pension scheme that is mandatory by 2012?

It is generally inevitable that extra pension contributions and compliance costs will be incurred by employers. In fact, the compliance costs will still be incurred even if all employees decide to opt out of the pension scheme. The employer would still have to automatically enrol them and then re-enrol them every 3 years (and prove that they have done so). However, with careful planning and budgeting these costs can be managed and their impact limited.

[3] What is your key advice to small business owners who are developing their plans to comply with the compulsory pension scheme regulations?

It is important to act now. Understand exactly how and when you will be affected and plan accordingly. Don't wait until the last minute to address your responsibilities and legal obligations as it will add further stress and pressure on your business. You may also have difficulty in finding the right expertise at short notice

[4] Do you think that auto enrolment is the answer to the pension time bomb that the Government says is a real and present danger to the UK's employees?

It's a good start. There is no magic answer that will be palatable to everyone but the auto enrolment rules will encourage people to think about planning for their future and to take responsibility for their own destiny. It's pretty obvious that no one will be able to rely on the State to provide a comfortable standard of living in retirement and auto enrolment will provide additional funds to help with this. The removal of the means testing rules will make the whole idea of saving more attractive for lower earners, who would previously have built up a pot of money only to then have this held against them in retirement.

[5] What is your view of the automatic pension scheme when this is applied to low-paid or part-time workers?

As per my previous answer, low paid or part time workers will actually benefit from being automatically enrolled in a pension scheme and it will give them more financial security than they are currently likely to have.

[6] Will employers face unrest and criticism of the scheme when it comes into force?

I think it is important for the Government to make both employers and their employees aware of the changes in the pension law and to assist them in understanding the benefits that the scheme is trying to bring about.

As pensions specialists, at RHG we are already offering free seminars for employers to help them understand their obligations and to make them aware of the choices they have.

How can small business owners in particular appease their workforces in the face of these pension changes?

They could look to minimise the impact of employee contributions, for example by phasing in contributions over an extended period. This would mean that they are compliant with the new rules as early as possible, rather than waiting until the legislation is imposed upon them. Other options may include options such as salary exchange arrangements to boost tax and NI savings.

[7] How can small business owners show their employees that there are clear benefits to the new pension scheme?

The employer should look to provide something that the employees will value. This might take the form of a better quality scheme with better facilities and options than those available under a standard default option. Emphasis should be given to benefits such as tax relief on contributions, the availability of tax free cash at retirement (potentially useful for repaying mortgages etc). Ideally, employers should engage with their staff in advance of automatic enrolment so that the employees are aware of the impending changes. Talk to them and understand what they would consider valuable and try to accommodate the feedback in what the employer decides to make available. This won't always be possible but if you ask the question it will at least give you an understanding of what is important to your employees and what they would value.

[8] Any other comments you would like to make about the new auto enrolment pension

Although the general economic conditions mean that the timing of the changes could certainly have been better for most employers, the current pensions 'black hole' is huge and it's not just going to go away. Stakeholder pensions never made any real impact in terms of the numbers of people saving for their retirement. It was therefore logical that some form of soft compulsion was going to be the next step. The credit crunch has seen an increased awareness of the need to save and this realisation (as well as proposed increases to State Pension ages) may well help in reducing the number of people who choose to opt out of any scheme into which they are automatically enrolled.