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Page: 53

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Your Money

Firms are not ready for new pension rules

It's 12 months until the introduction of enforced workplace pensions that could affect 13 million

By **SIMON READ**
Personal Finance Editor

Up to 13 million workers could have their pension plans thrown into confusion next year as their firms remain unprepared for new rules which force them to offer pension schemes to employees.

The process known as auto-enrolment centres around the introduction of a new national top-up pension scheme called the National Employment Savings Trust, or Nest for short. Employers will need to automatically enrol workers aged 22 or over who earn more than £7,475 into Nest or a similar pension scheme.

At a conference this week to report on the progress of Nest 12 months ahead of its launch, the Pensions minister, Steve Webb, said: "Our plans to get people into workplace pensions will mean that millions will be saving for their retirement for the very first time. Nest is critical to our plans, as a low-cost and easy-to-use option that is designed for people who are new to pension saving."

It was revealed that almost 100 employers have so far signed up to use Nest ahead of the new rules being introduced in October 2012. But the changes will effect around a million firms, says pension expert Steve Bee. And collectively those firms – which may have just one employee or hundreds – employ around 13 million workers.

In fact, only the country's largest employers – those with 120,000 or more PAYE employees – will be required to enrol employees automatically into a pension scheme from 2012. But all companies will be forced to do so by 2016, and there are 42 "staging dates", effectively deadlines for companies to act by 2016.

"Auto enrolment is a potential HR nightmare for SMEs and smaller companies that don't understand the issues and fail to act in time," warns Bee, who has set up Jargon Free Benefits to help employers comply with the new rules. "Fortunately there is still time to act and the earlier companies do the greater the number of sensible options they will have open to them," he says.

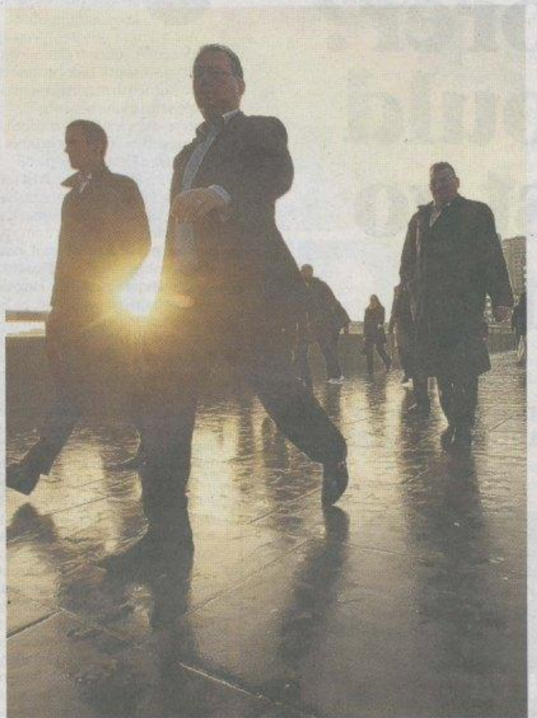
All companies will be forced to enrol employees into the scheme by 2016

Tom McPhail, pensions expert at Hargreaves Lansdown, also sent out a warning to employers. "I think many companies are not yet aware of just how much work they're going to have to do to ensure they comply with the legislation," he said. "It can all be done but it takes time and I fear that through 2012 to 2014 there will be an almighty scramble to get everything done.

"I also think that given the economic backdrop, the risk is increasing of high levels of opt-outs by members and levelling down of existing scheme contributions by employers." In other words some firms may use the introduction of enforced workplace pensions to reduce the benefits of existing schemes.

"Firms will look to limit costs as much as they can," agrees Chris Faulkner from the employee benefits team at Grant Thornton, who has been running seminars to explain the new rules to firms. "I see a difference between employers who see staff as an expense, and employers who see staff as an asset," he says. "But employers are going to have to embrace the changes."

He says more clarity surrounding the rules is needed. "There are still a lot of holes, meaning an employer may have problems complying with the rules," he adds.



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