

PENSIONS

INTRODUCTION

For any new business the decisions taken on pensions are very important and could have implications well into the future. They can therefore form some of the most important decisions a business will take and can have a significant impact on the long term viability of the business.

The aim of this guide is to explain the options available, outline the legal obligations on businesses and point members in the direction of more detailed pensions advice for those considering setting up their own business.

It is not intended to be a guide about individual pension provision or a guide about the NHS scheme as such information exists elsewhere and is freely available to SCOR members. However, if you are considering setting up your own business, the information contained in this guide should explain the decisions you will need to make as a business regarding pension provision for your employees and point you in the right direction for more detailed advice.

Pensions form an important part of the employment package. Traditionally they have been seen as important in creating staff loyalty and are also important elements of competitive employment packages. In recent years however traditional final salary schemes have become more expensive and employers, in seeking to reduce the cost and the unpredictable nature of the increasing cost, have moved away from such schemes based on earnings to those based on investment return.

It is important to note however that those businesses who wish to become an AQP and provide services on behalf of the NHS will charge for that work at the agreed NHS tariff. Fourteen percent of this tariff is assumed to be spent by the business on pension provision. This is the equivalent to the amount currently spent by the NHS and the SCoR expects a similar amount to be spent by those independent providers undertaking NHS work.

TYPES OF SCHEMES

Essentially, pension schemes fall into two broad categories. Schemes are either defined benefit schemes or defined contribution schemes.

Defined benefit schemes are those that provide a guaranteed level of benefit which is usually related to the amount of time a person has been in the pension scheme and their earnings. There are a number of different types of defined benefit schemes. There are those that base benefits on a person's earnings at or close to retirement (final salary schemes) and those that base pensions on an average earnings figure over a person's working life (Career Average Revalued Schemes - CARE). The existing NHS Scheme (both the 1995 and 2008 sections) is a final salary scheme while the new (2015) NHS scheme is an example of a CARE scheme. Such schemes usually require the employer to underwrite the cost of providing the benefits by agreeing to pay whatever is needed above the contributions from members to ensure the scheme is not in deficit or at the very least expect employers to contribute significantly more than their employees.

It is this guarantee and the increased cost in recent years that has led to many employers moving away from defined benefit schemes and replacing them with defined contribution schemes instead. In these schemes, pension benefits depend on the amount of money paid into the scheme by both the employer and the employee, the investment return generated and the charges applied by investment managers. There are no guarantees on the level of pension that will be paid and there is no commitment required from the employer to guarantee a level of benefit. Again there are various types of defined contribution schemes and individual personal pensions work on this basis. It is possible for defined contribution schemes to be set up covering more than one employer that are able to deliver economies of scale for employers and therefore potentially better pensions for the same cost for employees. SCoR would encourage members to investigate this possibility when considering pension provision and the auto-enrolment requirement described below for their employees.

AUTO-ENROLMENT

The most important development in recent years regarding pensions has been the legal obligation placed on employers to auto-enrol their employees in a scheme approved for auto-enrolment purposes. The aim of the legislation is to encourage as many people as possible to take advantage of pension schemes provided by their employer while at the same time compelling employers to provide at the very minimum a basic level scheme which their employees must be automatically entered into placing the onus on them to opt out if that is what they wish.

The legislation sets out the basic minimum level of contribution that must be provided by employers and the timetable by which employers of various sizes must comply with the legislation.

SCoR is working with First Actuarial to make more detailed advice and assistance available to members who wish to set up their own business and more detailed information on auto-enrolments is available on their website with the following link being particularly useful:

<http://www.firstactuarial.co.uk/InfoCentre/f1rstbriefings>

where their briefings on auto-enrolment can be found. New NHS employees are automatically enrolled into the NHS scheme.

REMAINING IN NHS SCHEME

Those businesses that wish to become an AQP and provide services on behalf of the NHS also have the option of becoming a contributing employer of the NHS scheme under the Government's "fair deal" arrangements. This means that for those employees who carry out NHS work they can remain in the NHS scheme if they are already members of this scheme. This will be particularly important for employees who are perhaps transferring from NHS employment. It enables them to continue to accrue benefits in the scheme with no break of service and avoids them having to leave the NHS scheme and become a deferred pensioner in that scheme (with pension then based on earnings and service at the time of leaving the scheme rather than at retirement) and make different arrangements for the future.

Members should investigate this possibility for their business as a first step towards providing pensions for their employees.

SETTING UP YOUR OWN SCHEME

As a result of the auto-enrolment legislation, all businesses will have to make arrangements to offer a pension scheme to their employees. Where it is possible to allow employees to remain in the NHS scheme, this should be investigated. Where this is not possible, a business must at least comply with the 2008 Pensions Act regarding auto-enrolment (see <http://www.dwp.gov.uk/docs/auto-key-facts-enrolment-booklet.pdf>) and either make their own arrangements or use the Government National Employment Savings Trust (NEST) scheme which was set up for this purpose.

<http://www.nestpensions.org.uk/schemeweb/NestWeb/public/home/contents/homepage.html>.

Between these two options are many other possibilities regarding scheme, cost and value for money, contribution levels and administration costs. Further detailed advice on all of these options is available from our pension partners First Actuarial at <http://www.firstactuarial.co.uk/> who are providing tailored advice to SCoR members and can be contacted directly using scor@firstactuarial.co.uk

All links accessed 7/1/14.