20 December 2006

sackers extra

alert

PENSIONS SAVING GETS "PERSONAL"

1 INTRODUCTION

Following the publication of the Pensions White Paper back in May this year[1], last week saw the publication of the Government's White Paper on personal accounts. It provides some long-awaited detail on how these accounts will operate without disturbing the current system for private pension provision.

2 KEY POINTS

- The new system, which the Government calls a "large multi-employer occupational pension scheme", will be based on a National Pension Savings Scheme model (as proposed by the Pensions Commission)[2].
- Eligible employees will be automatically enrolled into either a personal account or an employer-sponsored scheme.
- Employees will contribute a minimum of 4 per cent of their earnings, matched by a minimum 3 per cent employer contribution and 1 per cent in tax relief.
- The Government will implement policies to ensure that personal accounts complement, rather than compete with, existing employer pension provision.
- When personal accounts are introduced the requirement for employers with five or more employees to designate and provide access to a stakeholder pension scheme will be removed.

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[1] For further information, please see our Sackers Extra Alert, "The Pensions White Paper" dated 25 May 2006

[2] For further information, please see our Sackers Extra Alert, "Pensions Commission comes in from the cold" dated 30 November 2005

SACKER & PARTNERS

Solicitors specialising in pensions law

Sacker & Partners LLP
29 Ludgate Hill London EC4M 7NX
Tel 020 7329 6699 Fax 020 7248 0552

enquiries@sackers.com
www.sackers.com

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3 WHAT WILL IT MEAN FOR EMPLOYERS?

The Government does not want to disrupt current private pension provision. In introducing the personal accounts system its aim is to encourage those who are currently not saving for their retirement to do so.

For this reason there will be a range of measures to protect existing schemes. For example,

- Transfers between personal accounts and other pension products will not be permitted.
- There will be a ceiling on contributions to personal accounts[3] in order to discourage higher earners from leaving their current provision.
- Employers who operate a scheme with automatic membership and which provides benefits which are broadly equal to, or better than, those of personal accounts will be exempt from the requirement to automatically enrol their employees into personal accounts. The Government has noted that, due to EU law, it is not currently possible to operate a pure form of automatic enrolment (where the written consent of the employee is not required) into contract-based schemes, such as group personal pensions. It is therefore considering its options and has asked for views on how this obstacle might be overcome.
- It will be for an employer to decide whether to offer a personal account and/or its "exempt" scheme.

The Government is seeking views on whether to allow employers with "high quality exempt schemes" to continue to operate waiting periods of three to six months prior to auto-enrolment without an obligation for the employees concerned to be enrolled into personal accounts during that period. With this in mind the Government also asks "what should be the minimum level of contributions above which a waiting period

[3] The ceiling will be at least £5,000. However, in the first year it is likely to be set higher to allow transfers to be made from other (non-pension) personal savings.

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is acceptable?"

Employers whose employees are eligible for enrolment in personal accounts will be required to contribute a minimum of 3 per cent of earnings between approximately £5,000 and £33,000[4]. The current proposal is that this minimum contribution requirement will be phased in over a three year period.

Finally, employers who will or are likely to make use of the personal account scheme may be relieved that the Government's intention is to keep the compliance regime "light-touch", being as much about education and assistance as intervention.

4 WHAT WILL IT MEAN FOR EMPLOYEES?

The greatest change for employees will be that, whether their employer makes its own provision or uses the personal accounts scheme, they will become members of a pension scheme unless they make a conscious decision **not** to save.

The intention is that employees aged over 22 and below State Pension Age will be eligible for automatic enrolment into a personal account, with employees outside of this age range able to opt-in. Under current proposals any employees who opt-out may be auto-enrolled again after a 3 year period.

Employee contributions of around 4 per cent of a band of earnings (see paragraph 3 above) will be required.

It will be possible for both employees and employers to pay higher contributions if they wish, subject to the ceiling (see paragraph 3 above).

[4] When launched, the limits for the personal accounts earning band will be aligned with the Primary Threshold and Upper Earnings Limit for National Insurance contributions (£5,035 and £33,540 a year respectively in 2006/7).

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5 NEXT STEPS

Consultation on the White Paper ends on 20 March 2007. Although much remains to be done before their launch, the Government still aspires to introduce personal accounts from 2012.

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