

Press Release

Catch 2012 Pensions Impact on Company Payroll

Employers are not aware of the impending increase in employers' national insurance according to employment consultants PES. The Bristol-based specialists claim that many employers view the change as being too far in the future to plan for.

On 6 April 2012 companies that don't offer pension provision with an employer contribution will have to automatically enrol employees into the new government-proposed pension scheme and be required to make a contribution of up to 3% of band earnings – resulting in a rise in payroll costs for all UK companies.

For example, a company with 100 employees, a payroll bill of £1.5 million and an average salary per employee of £15,000 per annum (based on current NI rates), will have an additional cost of 1.5% to payroll. This is a large sum to hit a company's cost base almost overnight.

Pensions expert Mahesh Dewan at PES said: "Companies should plan a phased introduction of pension benefits over the next few years so that come 6 April 2012 you do not have a sudden hike in payroll costs that could put you at a competitive disadvantage."

Even with employees able to opt out, nearly all employers are likely to see an increase in their overall payroll costs.

Mahesh continues: "In our experience, most employers that do offer pensions have seen take up rates of around 50%, but with the proposed changes we would anticipate the take up to increase to between 75% and 80%.

"This will not be an issue if there has been an allowance in the company's budget for pension provision, but this is rarely the case.

“Importantly, not only will it be a criminal offence to wilfully fail to comply with the new regulations but also to wilfully fail to re-offer the scheme, every five years, to those who initially opt out. This could prove to be a logistical and administrative nightmare.”

Implementing the new scheme ahead of the 2012 deadline can also help to improve employee relations and motivation. Mahesh explained: “An employer who offers the scheme to employees ahead of the deadline will be seen in a good light as they are offering their employees a benefit which they don’t legally have to yet.”

Action Plan to 6 April 2012:

While suggested action plans depend on existing arrangements, now is a good time to review current arrangements and consider the possible range of pension solutions available with the future changes in mind. PES offers the following tips:

- Review your scheme and check how the current contribution rates compare against the proposed new arrangements
- If they are significantly better, then you may need to consider whether you can or should introduce additional less generous bands, so that you can automatically enrol employees into this part of the pension scheme to avoid an unnecessarily large increase in payroll costs
- You may however need to consult with employees if you wish to apply this to existing pension scheme members
- Check whether your current provider is likely to be able to offer any form of auto enrolment in compliance with the proposed legislation
- If you only offer pensions to a particular section of your workforce, consider the impact of a new less generous arrangement, and determine whether this presents an opportunity to have one scheme offered to all employees and whether better terms can be agreed with the current provider

Ends

Issued on behalf of PES by Trimedia.

For further information please contact Gemma Hinksman on 0117 929 2311 or gemma.hinksman@trimediauk.com.