CLA Healthcare

Workplace Pension Insights

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Agenda

- Workplace pension auto-enrolment
  What are the workplace pension obligations for family businesses and partnerships?
- Proposed changes to auto-enrolment rules
  When should employers be prepared?
- How can you ensure ongoing compliance with workplace pension re-enrolment duties?
- How can you use salary exchange to optimise tax efficiency for both the business and employees?
- How can you ensure that your current pension scheme is the best fit for your employees?
- Are you keeping your employees well-informed, up-to-date, and engaged with their workplace pension?

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Workplace Pension Auto-enrolment

Ensuring you comply with your obligations

AE rules apply as soon as you have at least one employee

Who is eligible to auto-enrolment?

- Those who are at least 22 years old, but under State Pension age
- Earn more than £10,000 a year
- Normally work in the UK
- Not already be part of a qualifying workplace pension scheme

What do you need to do?

- Make a total contribution of 8% to pension, of which 3% must be paid by the employer
- Minimum contribution: 3% employer, 5% employer
- Contributions based on Qualifying Earnings (earnings between £6,420 and £50,270) **as a minimum**
- More common to use basic salary
- Up to three-month postponement period can be implemented

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How much is enough?

You can pay more than this and a 2021 study by a leading pension provider has shown that someone starting in their 20's should look to save at least 12% of basic salary until State Retirement Age into pension for a comfortable retirement.

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Workplace Pension Auto-enrolment

Ensuring you comply with your obligations

Paying contributions to a qualifying pension scheme

A Qualifying Scheme must meet the following criteria:

- No barriers to entry
- Maximum 0.75% Annual Management Charge
- Default investment fund in place

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Workplace Pension Auto-enrolment

Some technicalities around business structures

Directors – When does Auto-enrolment apply?

- If the director has a contract of employment and at least one other person also has a contract of employment (either director or member of staff)
- If the director does not have a contract of employment and at least one other person also has a contract of employment (either director or member of staff)
- If you have multiple directors and no other staff, and at least two of the directors have employment contracts

Directors – When does Auto-enrolment not apply?

- If your organisation has only directors with no employment contracts and no other staff
- If your organisation only has one director with a contract of employment and no other staff
- Even if Auto-enrolment does not apply to you, you still have a duty to report to The Pensions Regulator:
- https://not-employer.ae.tpr.gov.uk/

Workplace Pension Auto-enrolment

Some technicalities around business structures

Partnerships – When does Auto-enrolment apply?

- If the nature of the payments to them from the LLP is in fact disguised salary
- If the member does not have 'significant influence' over the affairs of the partnership
- If any capital contribution made by the member to the partnership is less than 25% of the disguised salary

Partnership – When does Auto-enrolment not apply?

- "Genuine" partners (those partaking in the profit and loss of the business) are not subject to AE duties
- Genuine partners can join the pension if they wish to
- Care for those partners treated as self-employed for tax purposes
- In this scenario any pension contribution should be treated as a reduction in drawing and paid as EMPLOYEE contribution to pension

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Proposed Changes to Auto-enrolment rules

8% was never the end goal for workplace pensions

Proposed changes

- Lower the age threshold from 22 to 18
- Remove Lower Earnings Limit so that pay is pensionable from £1
- Timescales for implementation yet to be agreed

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Re-enrolment Duties

Every three years, in line with your AE staging date

You have a 3-month window if the three-year anniversary from your staffing date is not convenient

Re-enrolment date tool

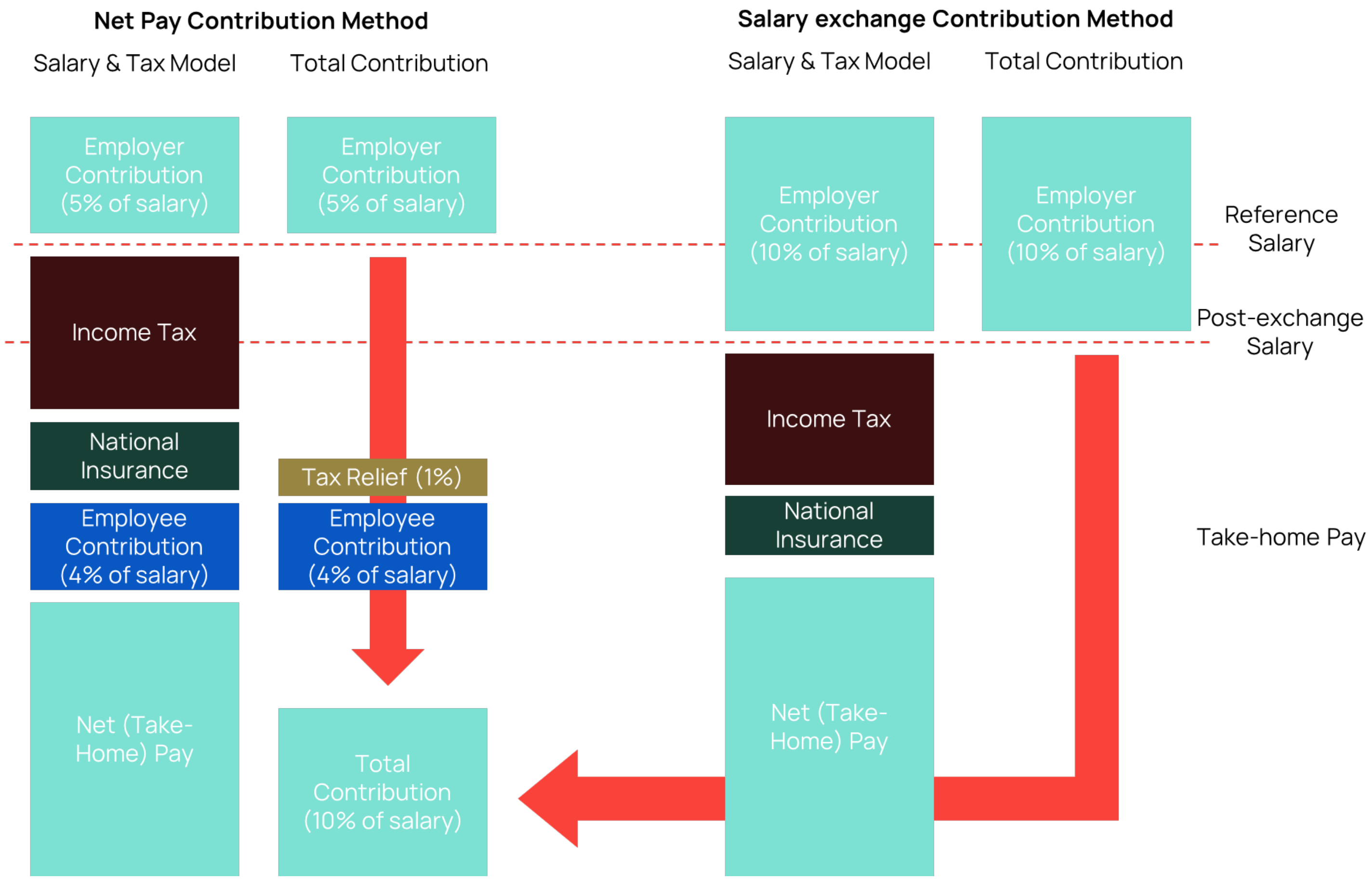
You need to

1. Assess all workers who are not currently in the pension scheme
2. Enrol those who are eligible (see slide 4 for details)
3. Write to staff that you've put back in the pension scheme – Eligible Jobholder Correspondence
4. Submit re-declaration of compliance to The Pensions Regulator

A Working Example for Pension Salary Exchange

As you can see from the model on the right, the differences between the net pay model and salary exchange are:

- With net pay, the employee pays tax and NIC on their full "reference" salary, whereas with salary exchange, they pay tax and NIC on their post-exchange salary, having "deducted" the pension contribution before taxation
- With net pay, the employee has their contribution, less basic rate tax relief (20%) deducted from their post-tax pay. With salary exchange, there is no deduction, as their pre-tax salary was already reduced to cover this
- As a result, the tax position is the same overall for the employee, but they have saved paying NIC on the salary given up before tax, meaning their tax-home pay increases by that amount
- The total paid into the pension on their behalf remains the same (5%+4%+1% = 10%)



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Salary Sacrifice Summary

Points to consider

Advantages to Employer

- Reduces Employer NI payable by 13.8% of the amount sacrificed by the employees
- Supports employees in facilitating immediate higher and additional rate tax relief
- However
- Cannot be used to reduce salary below National Minimum or Living Wage
- No tax advantage to those earning below £12,570 per year

Advantages to Employee

- Immediate tax relief at highest marginal rate
- No need to complete self-assessment tax returns for pension purposes for higher or additional rate taxpayers
- Relief on Employer NI

However:

Reduced taxable income can impact eligibility or means tested benefits

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Is your current Pension Scheme the right fit?

Points to consider

- Annual Management Charge (and any additional charges)
- Default fund – structure and performance
- Range of funds available
- Tax relief
    - Relief at source
    - Net relief
    - Salary sacrifice
- Auto-enrolment support, including employee assessment and statutory letters

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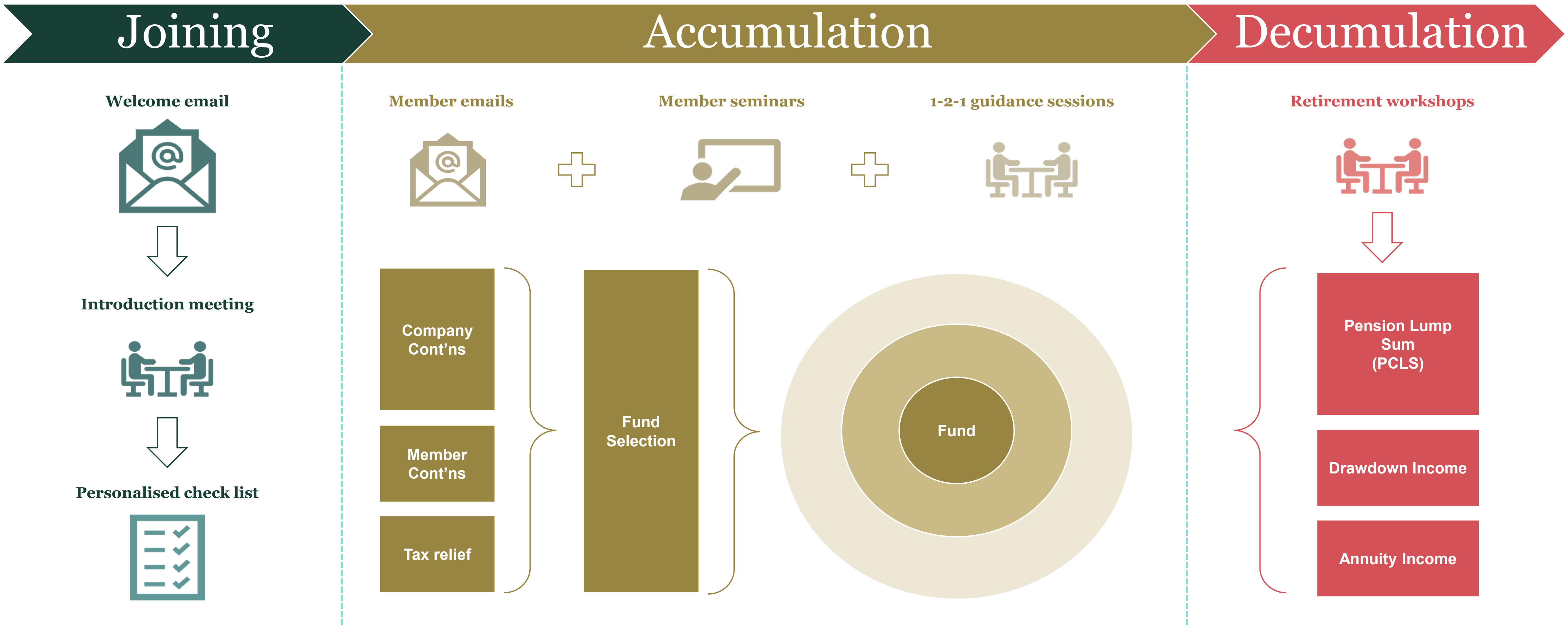
Communication Approach



Thank you

For more information contact us on

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