PENSIONS

A GUIDE TO
# WORKPLACE PENSIONS

Interface

Independent Financial Advisers - Financial Life Planners

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**Introduction**

Today, all employers have to offer a Workplace Pension to eligible workers.

The government originally introduced the pensions legislation called auto enrolment in 2008, making it compulsory for employers to auto enrol eligible workers into a qualifying workplace pension scheme, starting from October 2012.

This was through a staging process, starting with very large employers and slowly bringing in smaller employers so that by 2017 all employers were included.

By February 2019 over 10 million workers had a Workplace Pension, with less than 10% of those eligible choosing to opt out.

This way of getting people to join, through an automatic enrolment ("auto-enrolment") approach has proven very successful.

All eligible workers will be enrolled unless they actively opt out.

OVER 10 MILLION WORKERS HAVE A WORKPLACE PENSION WITH LESS THAN 10% CHOOSING TO OPT-OUT

## The types of scheme

Things get a little complicated trying to describe the different types of scheme, and we will not go into too much detail in this guide keeping it to a top-level outline.

There are basically two types of scheme:

- Occupational Pensions
- Group Personal Pensions or Stakeholder Pensions

Occupational Pensions are either final salary schemes or workplace pension schemes. These will be for eligible workers and will meet the criteria outlined in this guide.

Group personal pensions and stakeholder schemes will typically be there for workers who are not eligible for a workplace pension scheme.

Focusing on the Occupational Pensions, if your employer's scheme is a final salary scheme that will normally be linked to your salary and period of service and have guarantees attached to the amount of income provided at retirement and will ensure your pension is paid for life, however long you live.

If it is a Workplace Pension, then it will be a defined contribution scheme which means your payments, the tax relief and your employer's payments (or contributions) are placed into a fund or funds which will be invested.

How much you get back later down the line is a simple formula of how much is paid in, coupled with how much the funds grow over the duration of the life of the pension (until you start drawing it).

The details that follow cover the main points of this type of scheme, the Workplace Pension, defined contribution schemes which are by far and away the most common.

## Basic rules about contribution levels

There is a minimum contribution requirement that must be in place to meet the legislation.

**Minimum Workplace Pension contributions From April 6th, 2019**

| | |
|---|---|
| Employer Minimum Contribution | 3% |
| Total Minimum Contribution | 8% |

*Based as a percentage of "qualifying" or band earnings.*

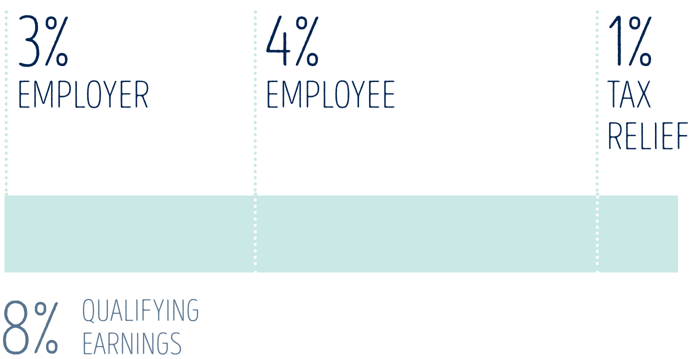
Band earnings describes the earnings level upon which contributions are based. For the tax year 2020/2021 these are between £6,240 per year and £50,000 per year. The trigger when auto-enrolment must be offered to a member of staff is £10,000 per year. These figures are subject to change from year to year.

The minimum figures shown above may vary from employer to employer, as some employers may choose to pay more than 3%.

Whatever amount is left to the employee to pay (e.g. 5% in many cases), this will attract tax relief.

As an example – for someone paying tax at 20%, they will pay a net 4% contribution, the government fund the other 1%.

Contribution position summarised assuming a 3% employer contribution, 5% employee contribution:




You can see therefore that for an employee, in this scenario, the contribution they make is doubled. Higher rate taxpayers receive even more help from the tax relief.

Many employers choose to pay in more and offer more generous terms than the minimum amounts set out.

## The top questions employees have about their Workplace Pension Scheme

### Am I eligible?

UK workers aged between 22 and state pension age and earning at least £10,000 per year, must be auto enrolled. The earnings level is subject to annual review and may change. Plus, there is a muted change that workers age 18-21 may be included in the future.

UK workers between the ages of 16 and 74 with earning less than £10,000 a year but more than £6,240, also have the right to join voluntarily (known as opting in).

### Should I join?

Your employer should have automatically enrolled you and given you all the information you need about the scheme when they did so. You will be in the scheme unless you opt-out. So, you must make a conscious decision and sign certain paperwork not to be in the scheme.

The benefits of joining are several: including the fact your employer will add a contribution on top of yours, you will get tax relief on your contribution and the whole thing is automated through your payroll.

### How much should I pay in?

You will have to meet the minimum amount set down by legislation or the scheme rules. However, you can pay in more up to very generous levels allowed by the government. If you want to pay in more, you should check whether your employer will match this and, if yes, up to what level.

Otherwise you could pay extra amounts into the Workplace Pension scheme or extra amounts into a separate personal pension. The decision on all these matters should be taken after you have received appropriate advice. It goes without saying that most of the time the more you can pay into your pension the better.

### What about my previous pensions from past employment?

In most cases you should be able to move an old pension across to your new workplace pension scheme. However, some schemes may have restrictions or special terms about allowing transfers in, so it is worth checking. It is VERY unlikely if your old pension scheme was a defined benefit pension with valuable guarantees that you would want to transfer this across – as you would lose the guarantees.

You can have as many pensions as you like during your working and savings years, so you don't have to transfer an old pension to your new scheme, you could choose instead to transfer to a new personal pension of your choosing and there could be good reasons for doing so.

There are many options and, as always, with these things it is best to take advice because the most suitable option will be circumstantial to your requirements and position.

### When can I take the pension?

The pension rules today allow you to access your pension pot or pots, with considerable flexibility and freedom, from age 55. You have many options to draw upon the pension or take income.

You can even start drawing upon the pensions and continue to work, so the link that used to exist between retiring and your pension starting has been broken. One word of caution, though – if you start drawing out money from a pension, it can restrict your ability to make future contributions.

### What happens if I have more than one job?

Each job is treated separately for auto-enrolment purposes. Your different employers will check whether you are eligible and will enrol you into the scheme if you are. You can be in more than one scheme, opt-out of any scheme, just as you can with one job.

It may be that you earn more than £6,240 per year but less than £10,000 per year in any of your jobs. If so, you won't be automatically enrolled in that employer's scheme, but you can ask to join. And if you do your employer also has to contribute. Even if you earn less than £6,240 per year you can still ask to join, but your employer does not have to contribute.

### What funds or strategy should I pursue?

This is a question which is arguably one of the most important, yet it is often left unanswered. In many cases once an employee joins a scheme, they simply choose funds randomly or select the so-called 'default fund'. We are talking here about Defined Contribution Workplace Pension Schemes (which is most of them).

This means quite simply; you and your employer pay in the sums every month and that money gets allocated to a fund or funds. Those funds are likely to be into underlying investments such as shares, government bonds, property and cash.

The funds produce a return, which in many cases will be unknown in advance and subject to 'performance'. If the funds perform well, your pension pot will grow quicker, less well and the pot will grow less quickly. Indeed, with some funds there is no guarantee it will grow at all and could even fall in value.

So, the funds you select, how it is managed and how often you check, review and adjust could all be crucial to how much you build up. And remember this is the amount of money you will get to enjoy in retirement. The trick is to avoid simply opting for a random or blind selection or the default fund - until you have got expert help and advice. The extra amounts a good strategy may produce, as opposed to an average or poor strategy can escalate into significant differences by the time you reach your retirement.

**What happens if I move on?**

Although the workplace pension is offered and run by your employer, it is your pension. Therefore, should you leave that job, you keep the pension for yourself. A new employer should also offer a workplace pension.

Whether or not you can move your old scheme into your new scheme depends on the schemes and their terms, it is not always possible. If it is, then you must decide whether it is a good idea or the right thing to do (take advice!).

Remember one thing though, the self-employed do not currently have access to workplace pensions, so if you leave employment and switch to self-employed you will have to sort out your own personal pension.

**The top questions employers have about their Workplace Pension Scheme:**

We assume by now you have a scheme in place and have become used to the basic enrolment rules, however there may still be questions around the management and running the scheme on an ongoing basis.

If you are new to this (i.e. just about to employ people for the first time), you should seek help about what to do, with a very good starting point The Pension Regulator, who have a whole section on their website to help you. We can help you put in place an appropriate scheme.

### What are our ongoing compliance requirements?

The main aspects to consider are:

- You must continually meet all the rules, and these may change from time to time, so you should regularly review the scheme considering any changes.
- You must also monitor closely your staff's ages and earnings as these may impact their eligibility to join and their and your contribution levels.
- You will need to keep accurate and current records of all aspects of the scheme. Any records must be kept for at least six years. Records for those leaving the scheme must be kept for at least four years.
- You will need to manage requests from staff who wish to join the scheme and any who wish to leave. Generally, you will need to deal with such requests within one month.
- You will need to make relevant information available to all staff members about the scheme, and ensure this information is accurate and up to date.
- If a new employee is taken on, they will need to be auto-enrolled and receive all the appropriate and required information about the scheme.

### What does re-enrolment mean and entail?

Every three years from the anniversary of the scheme's start date employers will need to go through a process known as re-enrolment.

This means any employee who opted out during the initial or previous enrolment stage will automatically be re-enrolled (assuming they are still eligible).

### What happens if we don't meet the compliance requirements?

You should be aware that there are penalties for non-compliance, so ensuring the scheme is run properly is important.

It is not just the penalties – the pension is an important factor for your employees and their welfare, so running a compliant scheme is an important standard in this way, as well.

### Getting help and advice

Whatever your position, taking advice can make a big difference.

As an employee, understanding how much you should contribute, what investment strategy to follow and the funds to use, and how to deal with other pensions (for example old schemes you may have) can all require careful appraisal.

An experienced adviser, such as a Financial Planner, can help you explore the options you have and find suitable solutions.

As an employer, having a well-run scheme will not only meet your statutory obligations but also provide your employees with a valuable addition workplace benefit.

Getting advice on the most suitable scheme to offer and, from there, managing the various ongoing requirements can ease the burden and produce a significant benefit to your Business and for your employees.

EVERY THREE YEARS EMPLOYERS HAVE TO RE-ENROLE FOR THE SCHEME. ELIGIBLE EMPLOYEES WHO PREVIOUSLY OPTED OUT WILL AUTOMATICALLY BE RE-ENROLLED TOO.

### History, structure, and expertise

Interface Financial Planning started providing independent financial advice in 1992. From the beginning it had the aim of providing professional advice and quality service to people with modest income and wealth.

Its key value was putting people before profit, and contribution before reward. This mission statement has been our torch to light the path ahead and has been the reason that we have endured for over 24 years.

Alan has lead the company with his personal values of: Integrity, Compassion, Respect, & Loyalty, and he is proud that over the years he has worked with clients who share similar values. Like him they want to help others and make the world a little better.

Client care and service is important and he is proud that his first two clients from January 1990 remain his clients today.

We believe that every client should have access to highly qualified advice and expertise.

Technology is used to the full to maximise efficiency and engage expertise from throughout the UK. The business has been paperless for 10 years and for over 5 years has been 'cloud' based. This structure reduces costs and allows support staff to operate anywhere - from Colchester to Honiton to Leicester and elsewhere.

Clients are encouraged to access their online account where they can exchange messages and documents securely. They can view their investments and reports, and they have immediate access to their paper file. Clients love the transparency and openness of being able to view and print paperwork going back for years and many clients use it as a source of reference.

**Owner, Director**
**Interface Financial Planning**

Alan Moran is one of the most highly qualified advisers in the UK. He became a Certified Financial Planner in 1995 and he was one of the first Chartered Financial Planners in 2005.

He is a Chartered FCSI, a holder of the IMC certificate and member of CFA UK. His expertise has been called upon by The CII, The IFP, The Kinder Institute, and others, where he has trained and examined other financial advisers.

**Alan Moran B.Sc. M.Soc.Sc. Cert.Ed. FPFS FSWW IMC CFP$^{CM}$ RLP®**
**Chartered Financial Planner - CERTIFIED FINANCIAL PLANNER$^{CM}$ professional – Chartered FCSI**
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**A member of The Ethical Investment Association and The Sustainable Investment and Finance Association UKSIF**

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**Compliance**

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The information contained in this guide is based on legislation as of the date of preparation and this may be subject to change.

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