Auto Enrolment - How will it affect your practice?
Richard Lishman discusses pensions and the latest regulations

The Department of Work and Pensions (DWP) has stated that millions of people in the UK are currently not saving enough of their income to sustain themselves throughout retirement. With life expectancy increasing, most people are likely to live for longer than twenty years after retirement, so having money put by for old age is more vital than ever. The DWP have found that pension saving has reduced across all age groups with only one in three adults now contributing to a pension. This is why the government has brought in new ‘auto enrolment’ legislation that will ensure that all workers can save for retirement.

As a way of encouraging people to start saving, the government has devised a new scheme which will have all employers automatically enrol their employees into a workplace pension scheme, regardless of whether they are working in a private or public sector firm. The aim of this is to curb the hesitance many people have to save for the future. The scheme was introduced at the start of last October and projected figures estimated that as a result of this more than half a million more people would be saving for a pension by Christmas 2012. It is predicted that come May 2015 that figure will have increased to around 4.5 million.

The introduction of auto enrolment will affect anyone who:

- Does not already contribute to a workplace pension.
- Is aged between 22 and the state pension age.
- Earns more than £8,105 a year (though this figure will be reviewed each year).

However, some employees who don’t fit the criteria for automatic enrolment may still be able to set up a workplace pension scheme. As long as that person is over 16 years old and earns more than £5,564 a year they will qualify. Despite this, their employer will not have to contribute towards the pension. Those who already contribute to a pension scheme may have to make changes to bring it in line with the new rules.

Although auto enrolment initially began on October 1st 2012, not all companies were required to comply immediately. The size of the company will affect when automatic enrolment occurs, with larger employers (more than 250 employees) first to enrol their workers. Any employers established after April 2012 will be the last to enrol their workers and this will take place between May 2017 and February 2018. Most dental practices will

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find that they will need to enrol between June 2015 and April 2017 as they fit in the bracket of ‘small employers’ as they generally have under 49 employees. The only exception to this rule will be any companies who have received a staging date of before June 2015.

The majority of people will be enrolled in to what is known as a ‘defined contribution scheme’. With this type of pension, both employee and employer make contributions which are then invested. The amount that is received upon retirement rests on how much has been paid in and how the investment has performed. The employer will need to contribute to the pension on anything over £5,564 a year to £42,475. With anything above the maximum, it is up to the employer to decide how much they contribute. A contribution to the pension will also be made from the government in the form of tax relief. The minimum contribution to be made will begin with a total of two per cent of the employees gross annual earnings, with 0.8 per cent contributed by the employee, one per cent by the employer and 0.2 per cent as tax relief. By October 2018, this minimum will have increased to eight per cent, with the employee now contributing four per cent, the employer three per cent and one per cent in tax relief.

There are, however, other types of pension schemes such as defined benefit or hybrid pensions schemes that some may be enrolled in to. With these kinds of schemes the amount that is paid out upon retirement can depend on a few things, such as earning and the number of years that the pension has been contributed to. With these kinds of schemes employers will not need to enrol their employees until the end of September 2017.

Despite the fact that all employers will at some stage need to be enrolled, they do have the choice to opt out, as workplace pensions are not compulsory. The government hopes that offering tax relief will sway more to contribute towards a pension. But despite this, it is estimated that millions will choose not to contribute. Opting out of a pension scheme after longer than a month will not release the funds already saved, these will remain in the pension scheme until retirement. Employers are prohibited from encouraging their staff to opt out by offering incentives like a higher salary or job offer. Employers who refuse to enrol their workers will receive a fixed penalty of £400 and those who continue to disregard the new legislation will amount daily fines ranging from £50 a day for companies with fewer than five staff to £10,000 a day for larger companies with more than 500 staff.

As when any new legislation is brought in, there is a lot to understand. Auto enrolment will have an impact on every dental practice in the country and it is clear to see that non-compliance can have a devastating effect. To avoid these penalties it is a good idea to have access to great financial guidance. ♦

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