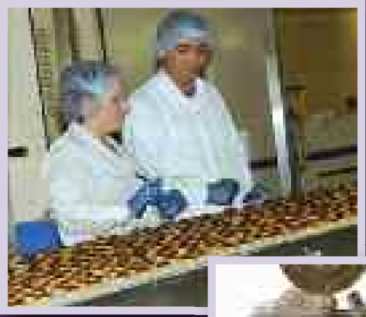
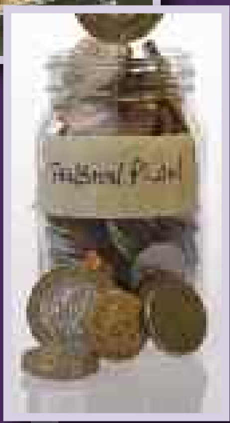
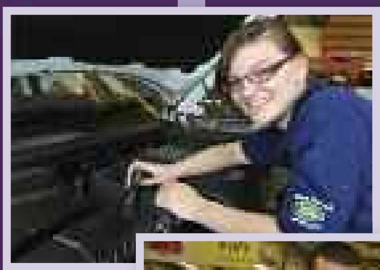
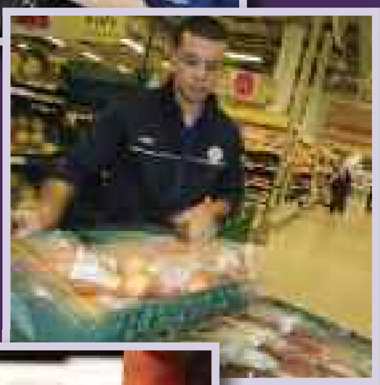
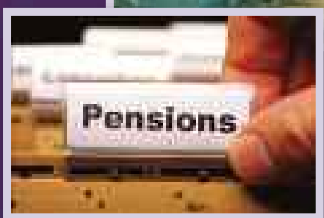
Your New Pension Rights: Auto-enrolment and Workplace Pension Reform 2012

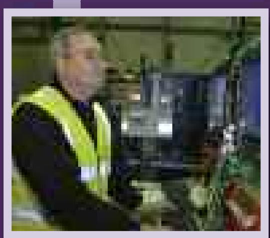








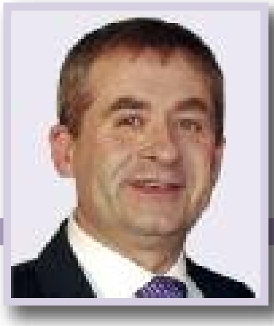




Usdaw
Union of Shop, Distributive and Allied Workers

Executive Council Statement to the 2012 ADM

Foreword



2012 is going to be a milestone year for the workplace pension rights of millions of UK workers.

We've all read the newspaper headlines about the pensions crisis that we face in this country. The good news is that most of us are living longer lives and can look forward to a longer retirement than our parents and grandparents. The bad news is that millions of us are saving too little for our retirement and what we have saved is going to have to be stretched over a greater number of years.

The need to save for our retirement is greater than ever but at the same time we know that over the last few years incomes have been squeezed by low wage growth and high inflation.

If we are going to have to put money aside for retirement then we need assistance to help us build up a decent size pension pot and that is where the 2012 workplace pension reforms come in.

Under the reforms brought in by Labour, not only will every UK employer have a new duty to start automatically entering their workers into a pension scheme but for the first time will have to start making compulsory contributions towards their workers' pension savings too.

The Government will also chip in by giving you tax relief on your pension contributions so that every £1 you pay in only costs you 80p.

Yvette Cooper, Labour MP and former Secretary of State for Work and Pensions, described this package of reforms as the most radical change to workplace rights since the introduction of the National Minimum Wage.

We agree and that is why Usdaw is giving its full backing to the introduction of the reforms and encourages you to support them too.

This EC Statement sets out to explain the following:

- Why we need change to happen.
- What the changes are.
- The timetable for introducing the reforms.
- What you are entitled to.
- Why Usdaw supports the reforms.
- What Usdaw reps can do to support the reforms in the workplace.

Our reps have done fantastic work over the last few years by taking Usdaw's Pensions Awareness Campaign into workplaces all over the country.

Now we need to give our members the facts about the new reforms and make sure that they don't lose out by not taking advantage of their new pension rights.

John Hannett

John Hannett
General Secretary

Contents

Section 1: The Need for Change

Pension reform by numbers

- 86% – the percentage of UK employers who don't offer their workers a pension scheme.
- 14 million – the number of workers who have no access to a workplace pension scheme. This is more than half of the UK workforce.
- 1/3 – the proportion of workers who choose not to join their company pension – even if the employer is offering to contribute towards it.
- 3 million – the number of private sector workers contributing to a workplace pension – the lowest figures since the 1950s.
- 13% – the proportion of UK private sector workers paying into a pension scheme.
- 2.1 – by 2050 it is predicted there will only be two working age people to every one pensioner in the UK. In 2005 there were four workers for every one pensioner. In 1901 the ratio was 10.1.
- 28 years – the predicted life expectancy for a 65 year old woman in 2050. A 65 year old man in 2050 will expect to live for another 26 years.
- 31% – the percentage of workers who start a new job without knowing whether there is a pension scheme on offer or not.

The numbers above tell the story of the UK's pensions crisis.

Life expectancy – the number of years we can expect to live for – continues to grow and grow with no sign of slowing down for many years to come.

This is good news of course. It means that most of us can expect a longer retirement than our parents and grandparents had before us.

The downside is that our retirement has to be paid for and a longer retirement means stretching our pension savings over a greater number of years.

Added to this fewer and fewer UK workers are saving for a pension. Right now there are millions of us who do not even have access to a pension scheme at work.

But even at companies that do offer a pension scheme – and the employer offers to pay into it too – there are fewer workers choosing to join than ever before.

Of those workers who do choose to join, the amount of money they are paying into their pension has been reduced over the last few years as incomes have been squeezed by low wage growth and high inflation.

Relying on your state pension to provide for you in retirement is not a good option. For over 30 years the value of our state pension has been seriously eroded until it is now only worth 17% of average earnings, which makes it one of the least generous in Europe. Recent reforms may go some way to stopping the rot but they won't make the state pension any more generous than it is today.

The means-tested Pension Credit introduced by Labour has brought millions of pensioners out of poverty but at just £137 per week for a single pensioner it still does not ensure a comfortable retirement and there is no guarantee that you will get it anyway.

On top of this we have an ageing society. With only four workers for every one pensioner – predicted to drop to two workers for every one pensioner by 2050 – our pay as you go state pension system is coming under strain. Governments all over Europe are looking to control state pension costs by raising state pension ages – and the UK is no exception.

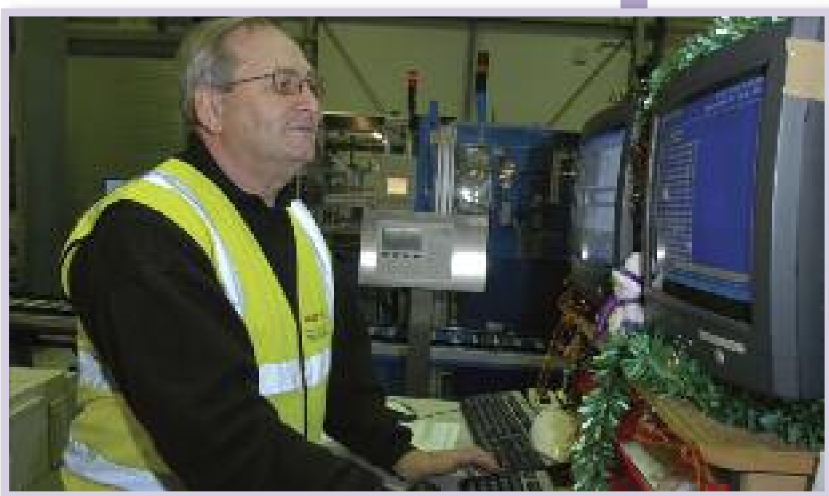
It was for all these reasons that the last Labour Government set up the Pensions Commission in 2002 to try and find a way forward so that generations of future pensioners – today's workers – don't have to fear a retirement spent struggling to make ends meet.

The reforms that will start to be introduced later this year – auto-enrolment and compulsory employer pension contributions – were the most radical of the changes put forward by the commission.

This package of reforms has widespread support from all of the main political parties, trade unions and employers' groups like the CBI.

These reforms will mean that millions of UK workers will have the opportunity to save for a pension for the very first time.

The success of these reforms is crucial if we are to save enough to make sure of a comfortable retirement at the end of our working life.



Section 2: What are the Reforms?

At the moment, most employers expect their workers to make an active decision whether or not to join the company pension scheme. Under the reforms it will soon become the norm for workers to be entered into the pension scheme automatically. This is called auto-enrolment.

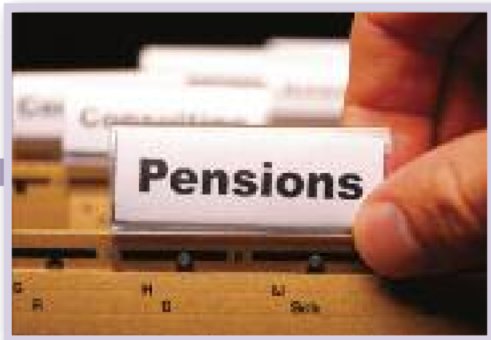
Auto-enrolment will begin in October 2012. It will start with the biggest employers (including all of the Usdaw 'Big 4' – the Co-operative Group, Morrisons, Sainsbury's and Tesco) then extend to the smaller employers over a five year period. All employers must have started auto-enrolment by October 2017.

To qualify to be auto-enrolled, workers must be aged between 22 and state pension age (that is the age when you become eligible to start claiming your state pension). You must also have earnings above the minimum earnings threshold (currently £7,475 per year) which will be reviewed by the Government every year.

Also, employers will have to start making compulsory contributions towards their workers' pension savings. The minimum compulsory employer contribution will start at just 1% of qualifying earnings and rise to 3% over a six year period between 2012 and 2018.

The total minimum contribution (made up of both employer and employee contributions) will start at 2% of qualifying earnings and rise to 8% over the same six year period.

Contributions will be based on a band of earnings (currently between £5,035 and £33,540). The band of earnings will be reviewed by the Government every year.



Are the new minimum pension contributions good enough?

No. Usdaw's view is that to achieve a decent pension pot at retirement, a total pension contribution of 15% is needed with 5% paid by the employee and 10% from the employer.

The new minimum contributions have been set very low at just 8% with only 3% having to come from the employer.

But this is an important starting point. More than 80% of the UK's employers are small to medium sized companies, which currently offer no pension scheme to their employees. Although the minimum contributions are low, auto-enrolment will give millions of workers the opportunity to save for retirement in a workplace pension scheme for the first time.

Most of the companies where Usdaw members work already offer a pension scheme with an employer contribution that is better than the new minimum.

Our main concern is that with thousands more workers joining those schemes for the first time, some employers may try to limit the cost of auto-enrolment by making their existing schemes less generous.

At a glance

- Between 2012 and 2017, employers must start automatically entering their employees into a workplace pension scheme – this is called **auto-enrolment**.
- Workers will be entitled to a compulsory minimum pension contribution from their employer for the first time.
- Workers aged between 22 and state pension age and earning more than the minimum earnings threshold (currently £7,475 per year) will qualify for auto-enrolment.
- Contributions are based on a band of earnings (currently between £5,035 and £33,540).

Section 3: Who is Affected?

If you are not already contributing to your employer's pension scheme then you will qualify to be auto-enrolled if you meet all of the criteria below:

- You are aged 22 or older but have not yet reached your state pension age.
- You earn more than the minimum earnings threshold (currently £7,475 per year).
- You work in the UK.

Opting out

You can opt out of auto-enrolment but you will have to fill in an opt-out form to do so. If you do opt out then your employer must auto-enrol you again every three years until you reach state pension age.

Usdaw believes that it is not in the best interests of workers to opt out. We want to encourage our members not to opt out – to stay enrolled – and take full advantage of employer contributions towards your pension savings.

Young workers

Young workers between the age of 16 and 21 will also have the right to join the pension scheme and get the same minimum employer contribution as everybody else.

Your employer does not have to auto-enrol you but they must give you information about the pension scheme and let you know how to join. If you do not join straightaway then you will be auto-enrolled once you reach your 22nd birthday.

Workers over state pension age

The same rules apply if you are above state pension age but younger than 75. You don't have to be auto-enrolled but you must be given the option to join. If you do join, employer contributions can be stopped once you reach your 75th birthday.

Age Group	*Action or Choices*
16 to 21	Your employer does not have to auto-enrol you but you can opt to join and you will be entitled to the minimum employer contribution.
22 to state pension age	Auto-enrolment with minimum employer contributions.
State pension age to 75	Your employer does not have to auto-enrol you but you can opt to join and you will be entitled to the minimum employer contribution.

Low earners

Low earners must also be given the option to join the pension scheme.

If you earn less than the minimum earnings threshold (currently £7,475 per year) then your employer does **not** have to auto-enrol you.

If you have earnings between £5,035 and £7,475 per year then your employer does not have to auto-enrol you but you can join the pension scheme and you will be entitled to the minimum employer contribution towards your pension.

If you earn less than £5,035 per year then your employer does not have to auto-enrol you. You can join your employer's pension scheme but they do not have to make any contribution towards your pension.

Earnings	*Action or Choices*
More than £7,475 per year	Automatic enrolment with minimum contributions.
Between £5,035 and £7,475 per year	Your employer does not have to auto-enrol you but you can opt to join and you will be entitled to the minimum employer contribution.
Less than £5,035 per year	Your employer does not have to auto-enrol you. You can opt to join but your employer does not have to make the minimum contribution.

The earnings thresholds will be reviewed by the Government every year.

There are rules which allow your employer to exclude you from auto-enrolment in cases where there is an unusual 'spike' in your earnings in any pay period which takes you over the monthly equivalent of the minimum earnings threshold. A spike in earnings might result from a backdated pay rise or because you did a lot of overtime one month.

Short-term workers and agency workers

Agency workers are also entitled to be auto-enrolled as long as they meet the normal qualifying criteria. If you are an agency worker, the responsibility for auto-enrolling you and paying your pension contributions lies with whoever pays your wages to you. That might be the company that you are working for or the agency you are registered with.

Employers can take advantage of a three month waiting period before they auto-enrol you. This means that if your contract is for less than three months then the employer might not have to auto-enrol you.

There are rules to prevent employers from abusing the waiting period. The employer must check to see if your auto-enrolment has already been postponed once in the last 12 months. If it has then they must auto-enrol you.

At a glance

- If you are between age 22 and state pension age and earn more than £7,475 per year then you qualify for auto-enrolment with the minimum employer contribution.
- The following do not have to be auto-enrolled but have the right to join the pension scheme and receive the minimum employer contribution:
  - Age 16 to 21.
  - State pension age to 75.
  - Workers on very short-term contracts.
  - People earning between £5,035 and £7,475 per year.
- If you are earning less than £5,035 per year you have the right to join the pension scheme but your employer does not have to make the minimum contribution.

Section 4: When is it Happening?

The timetable for employers to start auto-enrolment takes place over a five year period between October 2012 and October 2017.

Each employer has a start date by which they must have begun auto-enrolment. The start date is based on how many people they employ. The process starts with the biggest employers and leaves the smallest employers until last.

This is particularly significant for Usdaw because the UK's biggest employers and the first companies to begin auto-enrolment will be the big supermarkets: the Co-operative Group, Morrisons and Sainsbury's. Tesco already practice auto-enrolment and so will not be affected to the same extent.

It will be the job of the Pensions Regulator to notify every employer of their start date 12 months in advance. A further reminder will be sent three months before their start date.

Start	*Number of Employees*
October 2012	120,000 employees or more
November 2012 – March 2013	10,000 – 120,000 employees
April 2013 – September 2013	1,250 – 9,999 employees
October 2013 – February 2014	250 – 1,249 employees
April 2014 – April 2015	50 – 249 employees
June 2015 – April 2017	Fewer than 50 employees
May 2017 – September 2017	Any employer with a new PAYE scheme set up between April 2012 and September 2017
October 2017 onwards	Any employer with a new PAYE scheme set up from October 2017 onwards

By October 2017 all existing employers must have started auto-enrolment and new employers must begin as soon as they start taking on employees.

Employers can choose to start auto-enrolment before their start date. This could help an employer avoid any potential teething problems or delays which could result in fines being imposed by the Pensions Regulator.

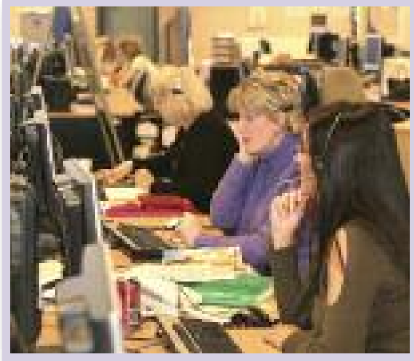
Your employer can auto-enrol you from day one of your employment or they can use a waiting period before auto-enrolment. The waiting period cannot be longer than three months. If you want to opt in before the end of the waiting period then you can do.

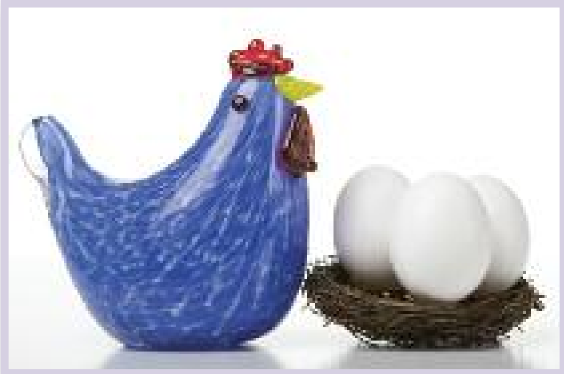
Special rules for defined benefit schemes

Any employer that has a defined benefit scheme – like a final salary scheme or a CARE (career average scheme) – which still admits new members can postpone auto-enrolment for existing workers only until October 2016 at the latest. Auto-enrolment cannot be delayed for new employees.

At a glance

- Auto-enrolment begins in October 2012 with the biggest employers – including Sainsbury's, Morrisons and the Co-operative Group – starting first.
- All employers will have to have started auto-enrolment by October 2017.
- Employers who still allow workers to join a defined benefit pension scheme (like a final salary or a CARE scheme) can delay auto-enrolment for exisitng workers only until October 2016 at the latest. Auto-enrolment cannot be delayed for new employees.





Section 5: What are you Entitled To?

New minimum contributions

New minimum contribution rates for both you and your employer will be introduced in stages over a six year period between October 2012 and October 2018 as follows:

Date	*Employer must pay*	*Employee**	*Total*
October 2012 – September 2017	1%	1%	2%
October 2017 – September 2018	2%	3%	5%
October 2018 onwards	3%	5%	8%

**Employee contributions receive tax relief from the Government which means that every £1 you pay into your pension only costs you 80p.*

Contributions do not necessarily have to be spilt in the exact same way as above. Instead, your employer might offer to pay more than the minimum or even pay the whole of the total contribution or more. Similarly, you can contribute more than the minimum employee contribution if you want to. As long as the total minimum contribution is being paid towards your pension it is not important who it is being paid by.

Qualifying earnings

The minimum contributions for auto-enrolment will be based on a band of qualifying earnings.

The qualifying earnings band is currently between £5,035 and £33,540 per year. This includes basic salary, commission, bonuses and overtime plus statutory maternity, paternity and adoption pay.

If, for example, you have earnings of £16,000 per year, your pension contributions would be calculated as a percentage of the difference between £5,035 and £16,000, which is £10,965.

Employers can choose to pay contributions on earnings below the lower threshold as well if they want or use a different definition of pay.

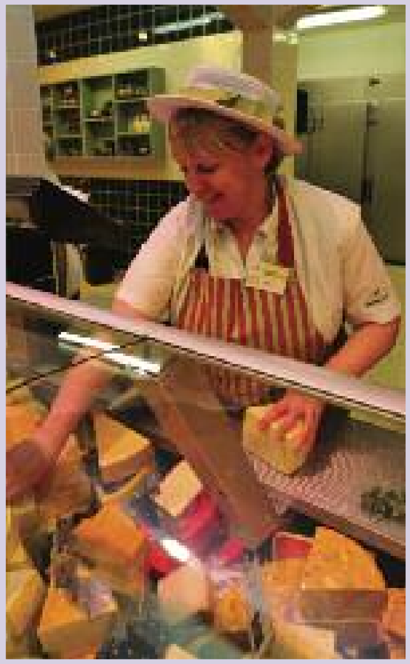
However, they must be able to prove the contributions paid are not less than the minimum percentage required of qualifying earnings between the two thresholds.

The qualifying earnings thresholds will be increased every year by the Government.

Every year on the anniversary of their start date, employers must check that contributions meet the minimum standards. The employers will have to certify that they have met the minimum requirements and make up any shortfalls if they have not.

At a glance

- The new compulsory total minimum pension contribution – for both employer and employee – is 8% of wages.
- A minimum of 3% must be paid by your employer.
- The new minimum contributions will be phased in over a six year period between 2012 and 2018.
- Employee contributions receive tax relief from the Government which means that every £1 you pay into your pension only costs you 80p.
- Contributions only need to be deducted from a band of earnings (currently between £5,035 and £33,540 per year).
- Basic pay, commission, bonus, overtime, statutory maternity, paternity and adoption pay must all be counted as being pensionable pay.
- Employers will have to declare that they have paid the compulsory minimum contributions every year.



Section 6: Things to Watch Out For

Levelling down

Since only around half of UK workers currently take part in their employer's pension scheme, the introduction of auto-enrolment will inevitably result in a big increase in your employer's pension costs. For this reason, many people are predicting that employers will look to keep their costs down by reducing the contributions that they pay to their current pension scheme down to the new minimum levels. This is called levelling down.

Employers must consult with employees and their representatives for a period of at least 60 days when they propose to reduce contributions to a pension scheme. If your employer proposes levelling down the contributions to your pension scheme then contact your Area Organiser at your local Usdaw office as soon as possible.

Offering employees inducements to opt out

Since auto-enrolment and compulsory employer contributions are going to increase costs, it is possible that less scrupulous employers will be tempted to offer their employees inducements to opt out.

There are many ways they could do this but some examples are:

- Awarding a pay rise to employees who opt out but not to those who do not.
- Offering overtime for people who opt out but not for those who do not.
- Selecting people who have opted out for recruitment or promotion above people who do not.

There are rules in place designed to prevent employers from offering inducements to employees to opt out. Any employer who is caught breaking these rules may be fined for doing so by the Pensions Regulator (see below).

Although Usdaw is confident that the majority of employers will fully comply with the new requirements, it is essential that our officials, reps and members keep an eye out for any practices which you suspect might be being used as a way to encourage workers to opt out of auto-enrolment.

Penalties for non-compliance

It will be the responsibility of the Pensions Regulator to issue compliance notices, penalty notices and fines to any employers that do not comply with the new rules.

Employers may face penalties for any of the following:

- Giving false or misleading information to the Pensions Regulator.
- Failing to make contributions.
- Failing to enrol or re-enrol qualifying employees.
- Giving employees incentives to encourage them to opt out.
- Recruiting new employees on the understanding that they will opt out.

At a glance

- Employers may look to reduce the cost of auto-enrolment by making their existing pension schemes less generous.
- Strict rules are in place to try and prevent employers from offering employees incentives to opt out of auto-enrolment.
- Employers who fail to comply with auto-enrolment rules can be fined by the Pensions Regulator.

Section 7: Why Usdaw Supports the Reforms and What Reps Can Do to Help

Saving for retirement is a big issue for Usdaw members. State retirement benefits alone will not guarantee us a decent standard of living in retirement.

Whether or not we think we can afford to save for a pension, one thing is certain: doing nothing is not an option. That is why Usdaw supports auto-enrolment and the 2012 pension reforms.

We know that saving for a pension is an added financial burden for many of our members. But with the introduction of compulsory employer contributions and the Government providing tax relief, the next few years will give millions of workers the opportunity to save for a pension of their own for the very first time.

Over the last few years, Usdaw's Pension Awareness Campaign has been driven forward by the enthusiasm and initiative of reps like you, which has made it the successful campaign that we have today.

Now our reps need to be at the forefront again; to support auto-enrolment and help make it a success. You can do this by:

- Providing the facts about auto-enrolment to members and telling them why Usdaw supports it.
- Encouraging members to take full advantage of their new pension rights by not opting out of auto-enrolment.
- Helping people to understand the importance of saving for retirement.
- Making sure that employers are meeting their new auto-enrolment obligations.
- Keeping an eye out for attempts by employers to level down existing pension schemes or offer incentives for workers to opt out.

What to do next

Step 1 – Set up your own pension awareness campaign

Pension awareness days are an effective way for reps to spread the basic information about pensions and auto-enrolment at work.
A straightforward campaign involves:

- Setting up a stall or designated area in the staff room or canteen.
- Making available Usdaw's various factsheets and information guides about pensions.
- Giving people the basic facts about their own company pension scheme.
- Encouraging Usdaw members to sign up for our *Understanding Pensions* Home Study Course.

Pension awareness days are easy to organise and you **do not** have to be a pensions expert to carry one out.

Just concentrate on giving people the basic facts about pensions and auto-enrolment so that they can then make an informed decision about what is right for them.

To help you get started, we have included a campaign materials order form in the appendix to this statement. Fill it in, send it back to Usdaw and we will send you our campaign toolkit along with all the materials you'll need to hold a successful pension awareness day.

Step 2 – Hand out our new auto-enrolment factsheet

Usdaw has also produced a factsheet and guide to auto-enrolment. Hand out the factsheet or pin it up on the staff or Union noticeboard at work to let people know what is happening. The guide is a useful tool for reps to check that your employer is meeting their new obligations. These can also be ordered using the form in the appendix to this statement.

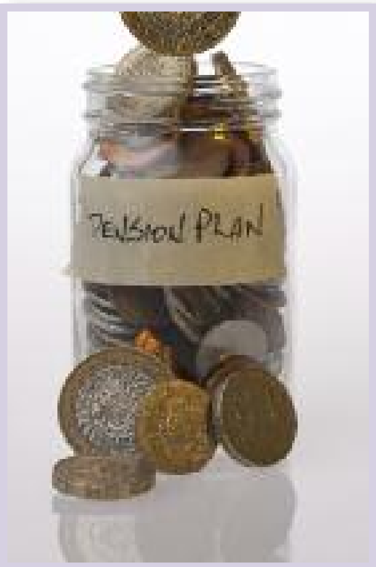
Step 3 – Sign up for the pensions home study course

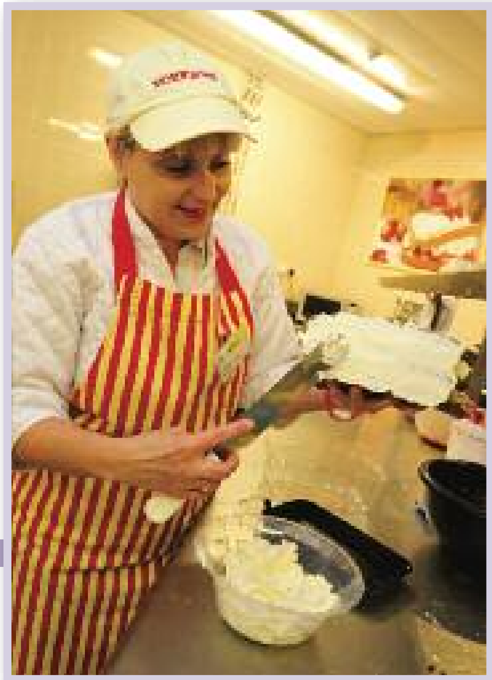
Sign up Usdaw members where you work to do the pensions home study course and refresh your own knowledge by signing up yourself.

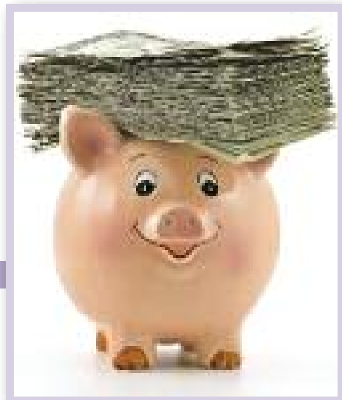
The course has been newly updated to include the facts about auto-enrolment and your new pension rights at work. It is free for Usdaw members and helps you to understand the basic facts about your own pension, what you are entitled to and how to help others with their own pension questions.

At a glance

- Reps will play a vital role in giving our members the facts about auto-enrolment and encouraging them to take advantage of their new pension rights by not opting out.
- Reps will be our eyes and ears in the workplace to make sure that employers are complying with the new rules.
- It is easy to organise a pension awareness day at work as a way of giving members the facts about pensions and auto-enrolment.
- Use the form in the appendix to order our reps' toolkit and the other resources that will help you carry out your pension awareness day.
- Sign up for our newly updated pension home study course and encourage other Usdaw members to do the same.







Appendix: Pension Awareness Campaign Order Form

Pensions

Order Form

Please send me the following Pensions publicity materials.

Quantity	Item
______	Usdaw Pensions Guide
______	Find out more about Pensions Leaflet (Lft 365) *(including the Pensions Home Study Application Form)*
______	Pensions Poster (R42)
______	Staff Pensions Survey Form
______	State Pensions Forecast Form
______	Your New Pension Rights – A Guide to Auto-enrolment
______	Pensions Auto-enrolment is Coming Leaflet (Lft 387)

Name ______________________________

Position ______________ Branch ______________

Workplace ______________________________

Delivery Address ______________________________

______________ Postcode ______________

Telephone no. ______________________________

email ______________________________

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