Prepare now for pension scheme overhaul

Sweeping Government reform of the pension system will leave businesses with sudden extra financial costs unless they prepare early.

Paul Jackson, employee benefits manager, warns the new 'Personal Accounts' will make it compulsory for affected companies to contribute to staff pensions.

The Government has proposed to introduce Personal Accounts as a new pension system. The new regime will automatically include all eligible employees who do not have a suitable company pension scheme from April 2012. This is to deal with the potential pension deficit many people are facing by not saving enough during their lifetime.

Personal Accounts were introduced by the Pensions Act 2008 which brings into law suggestions made by a Government White Paper in 2006.

But Paul has warned businesses will face a large financial burden with the introduction of personal accounts, as for the first time they will be required to contribute a minimum of 3 per cent of an employee's salary into a scheme.

Workers themselves will contribute 4 per cent, with the Government adding 1 per cent in tax relief.

He said: "There are many small companies which either do not offer a workplace pension, or do not offer one which meets the criteria set by the Government for its new scheme.

"Businesses which will be expected to enrol employees into a pension scheme will need to begin preparing now.

"Companies leaving it too late to prepare could find the sudden cost a major disruption to their business.

"Not only will there be extra administration burdens, but businesses not complying will face an investigation and possibly a fine."