

Pension provisions in the future

**B&CE's response to the introduction
of Personal Accounts**

**“Employers unaware
of pension reform
implications”**

**“Personal
Accounts
to tackle
undersaving”**

**“Government
announces
*new way
to save*”**

**“Countdown to 2012:
Are you ready?”**

**“Employers face
additional budget
burden”**

Introduction

Personal Accounts are a new type of pension plan; introduced by the Pensions Act 2008 as a 'new way to save' and they will become a legal requirement for every employer from 2012.

Employers that do not currently offer employees a pension scheme or whose schemes do not pass the scheme exemption test will have the additional burden of budgeting for, and introducing an employer pension contribution. This will apply whether they pay this contribution to an approved 'Personal Account' scheme, or an alternate exempt arrangement.

Those employers who already offer their employees a pension scheme will have to ensure it meets the scheme exemption test and amend their administration systems to be compliant. The introduction of this automatic-enrolment into a qualifying pension scheme will have an effect on every employer in the UK.

As part of our commitment to the construction industry, a key strategic objective is for customers already operating EasyBuild to not incur unnecessary additional administrative burden if possible.

Information and requirements detailed in this brochure are based on our current understanding, legislation is subject to change and therefore this document is for example purposes only.

2012

6,500 employers trust us with their employee financial benefits provision.

218,000 employees are protected by our schemes.

We are a not-for-profit organisation, so our profit benefits the industry, not shareholders.

Our systems and products are tailored specifically for the construction industry.

New employer requirements from 2012

- On launch, the limits for Personal Accounts will be aligned with the current primary threshold and upper earnings limit for National Insurance contributions. This means from 2012 all employees aged between 22 and State Pension age and earning between £5,035 p.a. and £33,540 p.a. (in 2006/07 values) who are not in a workplace pension scheme with compulsory contributions from their employer will be 'auto-enrolled' into one. Employees outside this age band may opt into the Personal Accounts Scheme. Auto-enrolment will mean employees being automatically enrolled into their employer's qualifying pension scheme without any active decision on their part.
- Employers will be responsible for putting in place procedures to auto-enrol all such employees into a qualifying workplace pension scheme. A qualifying workplace pension scheme is either an occupational pension scheme or a personal pension scheme including a stakeholder pension scheme (e.g. EasyBuild) registered under chapter 2 of part 4 of the Finance Act 2004.
- If an employer doesn't have a qualifying workplace pension scheme in place by 2012 they will have to ensure their employees are auto-enrolled into a default national scheme called 'Personal Accounts' currently under development by the Government.
- Employers will be compulsorily required to pay a minimum contribution of 3% of their employees' earnings (between a primary and upper earnings threshold) towards their pensions while they are members of qualifying workplace pension schemes. Employees will need to contribute 4% of their earnings, unless they elect to opt out of the scheme, while HM Revenue and Customs will contribute approximately a further 1% by way of tax relief. Further information is given in the table opposite – under contributions.
- Compulsory employer pension contributions will also become payable for agency workers.
- Employers will also have an ongoing duty to maintain qualifying pension provision for employees who are already members of qualifying schemes or become members of such schemes.

Changes to pensions in 2012

The Government estimate that approximately seven million people¹ are currently undersaving for their retirement. Many of these people are lower paid workers who in time will become dependent on the state for most of their retirement income, unless they are encouraged to save now. The Government therefore plan to introduce Personal Accounts in 2012 which are aimed specifically at low to moderate income earners.

Personal Accounts will operate as low charge, portable, multi-employer occupational pension schemes. They will be available to employees currently without access to an employer scheme (or to a scheme where the employer doesn't contribute).

Proposed key features of Personal Accounts

	Personal Accounts	Additional information
Automatic enrolment	Eligible employees must be automatically enrolled into Personal Accounts or employer's exempt arrangement. Therefore rather than opting into a scheme, employees must 'opt out' if they don't want to participate.	To be exempt, a pension arrangement must meet minimum standards of contributions paid to the scheme and it must introduce auto-enrolment for all eligible employees who have not already joined the arrangement and for all new employees when they become eligible. If an individual does opt out, they will be re-enrolled again every three years or on a change of employment, with the continuing right to opt out again.
Eligibility	Employees must be aged between 22 and state pension age and earn more than £5,035 per (2006/07 earning levels).	Employees outside the eligibility criteria may opt into the scheme.
Contributions	As an employer you must contribute at least 3% of qualifying earnings. Employees must contribute at least 4% and tax relief provides approximately an additional 1%. All contributions are based on band earnings – these are earnings between £5,035 and £33,540, for 2006/07, with these amounts being indexed each year in line with earnings growth. There is a maximum contribution of £3,600 per year.	It is proposed that contributions can be phased in over three years from 2012. For employers this means an initial contribution of 1% from 2012, increasing to 2% and 3%. Employees' contributions will be 1% increasing to 3% then 5% (including tax relief). In contrast, in schemes like EasyBuild, a member can contribute the higher of £3,600 or 100% of their earnings each year. The absence of the £3,600 per year contribution limit may make EasyBuild the preferred option for moderate to high earners.
Transfers	There will be no transfers into or out of Personal Accounts.	Employees with existing pension provision can transfer into or out of different pension arrangements, dependent on the scheme rules.

The role of B&CE in the construction industry

We are dedicated to improving the financial and personal wellbeing of everyone in construction. The UK construction industry employs 2.1 million people and accounts for 8% of gross domestic product². So what do we bring to employee benefit provision that other financial services companies cannot compete with?

Specialist knowledge

We have worked within the industry for more than 65 years. Our Board of Directors is made up of industry employer and employee representatives, so we have a unique insight into the way the industry works and its particular requirements and challenges. The fact that we specifically target the construction industry is one of our strengths. We concentrate our efforts on being a leading provider to one sector and don't spread our knowledge base thinly across many sectors.

One important benefit of this knowledge is that we help construction employers keep pace with changing UK employment and benefits legislation and provide free workplace seminars about pensions and benefits to employees.

Experience

Since the first holidays-with-pay scheme launched in 1942, we've built products specifically tailored to benefit construction workers and their families. Today, we provide a wide range of affordable employee benefits funded by a NI concession which we fought hard to preserve until 2012. Our administration systems are tailored specifically for construction companies. EasyBuild is acknowledged by the industry as an outstandingly successful pension scheme. We have proved that stakeholder pensions are viable in this sector.

B & C

Credibility

All this experience and knowledge gives us a level of credibility which engenders confidence and trust amongst the construction industry. We are a not-for-profit organisation, therefore we don't account to shareholders, just our customers. This means that we always put the needs of our customers first.

We also champion the welfare of industry workers and established the B&CE Charitable Trust to provide financial assistance to construction workers and their families who are suffering hardship. In addition, we support Constructing Better Health, an industry-backed occupational health scheme for construction workers.

Influence

It's important to our Senior Management Team that we use our industry knowledge for the benefit of those in the industry. This has been particularly true of the influence we have as the manager of the construction industry's most popular stakeholder pension scheme. We have been able to use our unique access and contacts to lobby the government about the introduction of Personal Accounts. The success of EasyBuild shows what can be accomplished by well managed stakeholder schemes. We will therefore continue to contribute to government consultations to help ensure that the needs of lower paid construction employees are always considered in future pension provision developments.



We have worked within the industry for over 65 years.

We manage the construction industry's most popular stakeholder pension scheme.

Our aim is to provide a better solution to Personal Accounts

We have to acknowledge that the introduction of Personal Accounts in 2012 will have an impact on our business. As a major provider of the stakeholder pension, which was also introduced to boost pension savings for low to moderate income earners, we aim to ensure that EasyBuild is a better solution to the pension requirements of construction companies and their employees than Personal Accounts.

Scheme exemption

The government are proposing to exempt employers from the requirement to automatically enrol their employees into Personal Accounts if the employer already provides a scheme which is broadly equivalent to or better than Personal Accounts and they automatically enrol their employees into it.

We therefore propose to ensure that EasyBuild becomes an exempt scheme and provides a better pension solution for construction workers and employers than Personal Accounts.

Automatic enrolment

One of the key features of Personal Accounts is automatic enrolment which the government hopes will encourage a greater take up of pensions in general and specifically amongst the lower paid. We will therefore ensure that automatic enrolment will become a feature of EasyBuild by the time Personal Accounts are launched in 2012.

Simple administration

We hear time and again that our customers want to get on with what they know best – construction. They don't want to spend unnecessary time dealing with complicated pension administration. Our message to our existing customers is that if you stay with EasyBuild, not only do your employees benefit from a low-cost flexible pension scheme, but you won't have to enrol them in to Personal Accounts. We aim to automatically change your current EasyBuild account to the new version of EasyBuild which aims to fulfil your requirements to provide Personal Accounts.

Flexible administration

In addition, we plan to introduce online administration for those companies who wish to keep track of their contributions and employee records at any time of the day or night. We'll also ensure that employees have secure access to the system so that they are able to amend their contribution levels as required.

However, there will always be a knowledgeable voice at the end of a phone if employers and employees wish to speak directly to us.

In the future we also want to develop a direct link from all of our employer's payroll systems to our administration systems. This should significantly reduce human errors and cut down on the time and costs involved in pension administration for our customers.

EasyBuild

In the past 25 years we have paid out over £529 million in benefits.

We manage £462 million in holiday benefit contributions each year.

Fund choice

In line with our desire to make EasyBuild an exempt scheme and to make the product appeal to all construction employees, we plan to expand the fund choices available. It is possible that the number of funds and managers available to choose from will increase. We will keep a default fund for those who do not wish to make an investment fund choice and we will keep fund lifestyling in place.

Suitability

At the moment EasyBuild aims to provide a reasonable pension for low to moderate income construction operatives. By 2012 we will have remodelled EasyBuild to make it appeal to a wider target market.

This target market will include directly employed operatives, clerical and professional staff, the self employed and their families. Many of these potential customers will be used to dealing with retail pension and insurance companies and expect the same level of choice and flexibility in their dealings with us. We will provide that flexibility by offering easy online access to their account, a greater choice of funds and contribution options.

For employers, the new version of EasyBuild can become an integral part of their employee benefit provision, not just for operatives, but for all their employees. This will mean that they will only need one point of contact for all their employee pension requirements.

'New' EasyBuild timetable of introduction

We know that Personal Accounts will be launching in 2012, so if we are to establish 'new' EasyBuild as a realistic alternative to Personal Accounts, we need to begin the product development work as soon as we know the specific parameters for scheme exemption.

Anticipated plan as follows:

2009	'New' EasyBuild product development
2010	Online system developed and funds researched
2011	'New' EasyBuild launched
2012	October Personal Accounts launched

EasyBuild

EasyBuild vs. Personal Accounts

Our aim is to ensure that EasyBuild is an approved alternative to Personal Accounts, the table below shows where EasyBuild is now compared to the proposed parameters for Personal Accounts. As you can see the existing EasyBuild product is already very close to meeting all of the criteria.

	EasyBuild	Personal Accounts (Proposed at Feb 09)
Type of scheme	Multi-employer defined contribution Stakeholder pension	Multi-employer defined contribution occupational pension
Portability	Can keep account if you change employers	Can keep account if you change employers
Available to	Existing and new employees aged 16 and over	Existing and new employees aged 22 and over to state pension age
Suitable for	All employees regardless of earnings	Lower – moderate wage earners
Auto enrolment	Not at present	Yes
Opt out	Yes	Yes
Fund manager	Legal & General	Third party fund management
Contributions handled by	B&CE	Government backed clearing house
Administered by	B&CE. Moving to online admin 24/7 support. UK based human contact. No automated call centre. Seamless payroll link – no need for duplicate inputting.	Third party administrators Depends on provider
Options at retirement	Pension can be taken from age 55 or left invested until 75. Can also take a lump sum if required.	Pension can be taken from age 55 or left invested until 75. Can also take a lump sum if required.
Charges	Currently 0.8% annual management charge (AMC)	Suggested 0.5% AMC initially
Fund choice	Managed Fund Cash Fund	Default Fund plus others, possibly ethical or religion-based funds
Fund lifestyling	Yes	Yes
Contribution minimums	£5.00 per week employee. Matched by employer up to £10.00 per week.	At least 4% employee At least 3% employer (for employees earning between £5,035 and £33,540 in 2006/07) approximately 1% tax relief
Annual contribution maximum	None. Tax relief is only available on contributions of £3,600 or 100% of earnings whichever is the greater, up to the annual allowance for the current tax year.	£10,000 for the first year, £3,600 thereafter
Transfers in and out	Allowed	Not allowed
Employee communication	Product literature Annual statement	Annual statement

What do you need to do now?

* If you are an employer currently paying into a qualifying pension scheme (e.g. EasyBuild), with employer contributions of 3% or more of employee earnings and employee pays 4% or more, you may be able to carry on as you do now if the scheme meets the exemption criteria.

* If you do not pay into a pension scheme, you will have to start in 2012 and by the end of the phasing period, you will be paying 3% of band earnings (£5,035 – £33,540 based on 2006/07) unless the eligible employees opt out.

* If you were already thinking of introducing a pension scheme for the purposes of staff recruitment and retention, and you decide that you would like to implement a scheme which will be exempt from the Personal Accounts, please contact us.

In summary, the year 2012 will bring some fundamental changes to workplace pensions. All employers must meet the requirements for Personal Accounts. Your existing arrangements may already meet those requirements, however if they don't you will need to start planning early.

Further information

If you have any questions, please do not hesitate to contact us on 08457 414142 or 01293 586790.

Dedicated to the personal and financial wellbeing of everyone in construction

Since 1942 B&CE has provided financial welfare benefits to those working within the construction industry and their dependants. Today it manages assets of over £1.5 billion and provides financial benefits to over 218,000 operatives on behalf of 6,500 construction employers.

EasyBuild stakeholder pension scheme for the construction industry has over 500,000 members and £420 million under management. In 2009, B&CE launched its employee healthcare product, offering a cash benefit towards routine healthcare.

The above information is correct as at March 2009.

for more information:

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To help improve our service, we may record your call.



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