In light of reform

Changes are on the horizon when it comes to NHS pensions. Stephen Knowles explains what they are and how they will affect practice owners

In 1901, there were 10 people of working age for every pensioner. In 2005, this was a ratio of four to one, and it is predicted that by 2050, it will be two to one. The Government is concerned that a large proportion of the population is not saving for retirement either at all or in amounts large enough to provide for the longer lifespan seen after 65.

As a result, the Government has had to act to increase access to pensions – the outcome is workplace pension reforms of substantial proportions. The reforms contained in The Pensions Act 2008 will be introduced in 2012, with wide-ranging implications for practice owners.

At the moment, the obligations of employers towards workplace pension provision could be described as minimal. For those employers who employ five or more staff, the obligation is simply to provide access to a stakeholder pension scheme. There is no compulsion to make any contributions to such pensions and few employers have made the effort to join such schemes. However, employers are going to have to start paying closer attention to the issue in light of the wide-ranging reforms the Government is introducing over the next five years.

Key measures

The workplace pension reforms contained in The Pensions Act 2008 will place a duty upon employers to provide a pension scheme that meets certain criteria for all eligible workers, as well as making a minimum contribution to the scheme. Workers will be automatically enrolled, unless they opt-out, and workers that do not qualify, can opt-in (but the employer is not required to contribute in this case, unless they want to). Employers will not be required to enrol into a scheme for workers who are currently members of a workplace pension scheme that meets the qualifying standards.

A “worker” is defined as someone working under a contract or employment or any other contract by which the person agrees to perform work or services personally for the other party to the contract. (The precise scope of this latter category of person has not been satisfactorily defined by the Courts but appears to include certain self-employed persons.)

The new pension measures do not apply to workers under the age of 22 as well as those who have reached pensionable age. Workers earning below a minimum amount will also not qualify. Therefore, anyone employing staff above the age of 22 whose earnings fall between £5,035 and £33,540 per annum will be obliged to provide a good-quality pension scheme, or use the Government’s scheme.

Adjusting to the system

This is clearly going to have significant ramifications for UK dental practice owners. To help employers adjust to the new system, the reforms are going to be introduced in stages, beginning with large employers first. For those employers employing 120,000 staff or more, the reforms start in October 2012. Those who employ less than 30 staff will be expected to commence the reforms in stages from 1 August 2014 to 1 February 2016.

There will also be a phasing-in of the contribution levels, with employers starting at one per cent in 2012, rising to two per cent in 2016 before progressing to the three per cent final level in 2017. Final details of the staging and phasing will be finalised in 2010.

Who is responsible?

There are three bodies responsible for the administration of the new scheme: the Department of Works and Pension (DWP); The Pensions Regulator (TPR); and the Personal Accounts Delivery Authority (PADA). The TPR will be responsible for maximising compliance with employer duties, while the PADA will oversee the administration of the Government’s Personal Account Scheme, now known as NEST.

The National Employment Savings Trust (NEST) is the workplace pension scheme being launched in 2011 as a way for employees and their “low-to-moderate” earners to meet the requirements of the auto-enrolment reforms. The scheme is a trust-based occupational pension scheme, regulated by the TPR and overseen by the NEST Corporation: a non-profit organisation accountable to Parliament.

What are the implications?

Although the obligations for small employers set out above are some way off, anyone preparing any kind of business plan or costs forecast will be wise to bear in mind these reforms now. For instance, how many employers will want to award pay rises in the year or even years before these reforms start?

When it comes to any kind of workplace planning that involve staff costs, being fully prepared for the potential impact on the business model will avoid any unexpected shortfalls.

At some point, all employers are going to have to assess whether to use the Government’s NEST scheme to comply with their obligations, or whether an alternative, existing scheme is a better option to suit the particular circumstances. As ever, the sooner an employer acts, the better prepared they will be and seeking professional advice on such matters is always recommended.

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