Pension Contributions – What Basis?

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Automatic Enrolment legislation has now been around for 7-8 years and apart from the big FTSE companies and large SME's who were likely to have already had established pension arrangements, I don't think it's unfair to say that 'some' pension arrangements may have been set up a little hastily with 'being compliant' being the absolute priority.

As in individual, do you do still do the same things in your personal life that you did 7-8 years ago? I know I do however there are some things that I regularly review, and these tend to be financial things.

Now that Automatic Enrolment is in a steady state and businesses are taking a deep breath before having to deal with the fallout from Brexit and the recent election, now may be a good time to sit down as an employer and review your pension scheme to see what is in place and whether it is still fit for purpose. Questions an employer may want to ask themselves could be:

• What does a perfect workplace pension look like?
• What outcomes are my employees expecting at retirement?
• How as an employer can I help my employees get the best outcomes for them?

One of the areas we at Wingate regularly get asked about are contributions. Not on the levels that are being paid, but instead, how the contributions are paid.

By way of some background, there are three ways an employer may wish to deduct pension contributions from an employee's pay. These are summarised as follows:

Relief at Source

Pension contributions are taken from pay after it has been taxed. The pension provider then automatically adds 20% tax relief to employee contributions for all taxpayers with higher and additional rate taxpayers having to claim back extra tax relief personally.

Net Pay

Pension contributions are taken from pay before it has been taxed. This means that the employee's contribution automatically receives tax relief at their marginal rate of tax and is not required to complete a self-assessment return.

Salary Exchange

Salary Exchange is an agreement between an employer and an employee where the employee exchanges part of their contractual gross salary or bonus in return for a non-cash benefit, in this case pension contributions.

Of course there are advantages and disadvantages to all the contribution basis' summarised above however the choice on which option to use falls into the lap of the employer as they are in effect the ones who are setting up and managing the plan on an ongoing basis.

Currently there is a lot of noise in the pension industry now about how low paid earners are potentially missing out on tax relief on pension contributions if they are members of a workplace pension scheme that operates on a Net Pay basis. In the last general election, the government even made reference to this issue and confirmed that they will undertake a review however a timeline has not yet been published.

Whilst there are lots of action groups pushing the government to review and potentially abolish the Net Pay option based on the lost millions of tax relief throughout the country, surely some responsibility sits with the employer themselves who have the ability to select and subsequently change the contribution method to one of the other options stated above or even go to the lengths to change provider if the incumbent provider doesn't facilitate the wishes of the employer.

At Wingate, we can help employers understand all the above and more and provide recommendations for new arrangements or just small tweaks to existing arrangements. If this is something you may be interested in, please feel free to contact Wingate on 01883 332260 or at info@wingatebs.com