



# Pensions - the Small Business Perspective

## THE ISSUE

The UK Government is facing a serious challenge of caring for a rapidly ageing population. With the declining population of working age, the increase in longevity and, it seems, a general reluctance to save all compounding the need for action, much has been done in recent years to come up with proposals that would change the way the UK saves for retirement.<sup>1</sup> One major outcome of Lord Turner's Pensions Commission has been the plan to introduce the 'personal accounts' scheme. Under proposals currently before Parliament, as from 2012, workers<sup>2</sup> will be automatically enrolled into a personal accounts pension scheme, contributing four percent of their earnings, with employers providing a further three percent.

This new plan is primarily aimed at those workers who currently have no supplementary pension provision, and at those on lower incomes. Such workers are most likely to be employed in the SME sector and as such, this new scheme is likely to have a significant impact on small businesses. While the SME sector currently employs over 13 million people, firms within it are least likely to be offering a workplace pension scheme to their employees. Some research suggests that 80% of employees in firms with fewer than 12 employees do not participate in a supplementary pension scheme, which compares to 35% of employees in businesses with 1,000 or more employees<sup>3</sup>. The impact of the proposal is therefore significant in the context of the drive to encourage more people to save for their retirement. At the same time, however, the operation of the new scheme will require the active involvement of employers, and this could have potentially material consequences in terms of compliance costs and management time. These potential consequences have not been adequately considered during the drafting of the proposals, nor does it seem that the associated issues are being addressed as the implementation plans progress.

The area of pensions demands a wide ranging debate<sup>4</sup> but some of the key concerns identified by the ACCA Small Business Committee\* are outlined below.

## ADMINISTRATIVE BURDEN

The new administrative burdens arising from the current proposals conflict with the Government's plan to reduce the administrative cost of complying with regulation by 25% by the year 2010. The potential impact of the scheme in terms of the financial cost and the time spent in administrating it will actually create new business

---

<sup>1</sup> Pension Commission

<sup>2</sup> whose income falls within set bands (between about £5,000 and £30,000) and who are not already contributing to a private sector pensions scheme

<sup>3</sup> Annual Survey of Hours and Earnings (ASHE) Pensions Analysis (2006)

<sup>4</sup> Two ACCA commissioned research projects, exploring how SMEs encourage savings, and the implications for small firms of mandating pensions are due to be published in the second half of 2008

burdens. Employers would be required to deduct contributions from staff pay on a regular basis, pay them over to the new delivery authority on a monthly basis and provide requisite information to their staff, all of which amount to a significant change in practice and create demand for additional resources. The administrative costs may be even greater where staff are paid on a weekly basis or, in some sectors, where employment of seasonal workers is predominant. The proposed system will effectively create a three tier deduction system (Income Tax, National Insurance Contributions, and the new personal accounts scheme) effectively ignoring small businesses' calls for PAYE/National Insurance simplification.

The Government's own costs and the resources required by the personal accounts board to manage millions of personal accounts will also be significant and may mean that the cumulative administrative cost of the scheme proves to be much higher than current Government estimates<sup>5</sup> of just £101 million per annum suggest.

Ignoring these potential outcomes may lead to unintended consequences that could pose a significant risk to the scheme's success. For instance, small business employers could adopt alternative patterns of employment. Also, the personal accounts system, as presently proposed, may prove to be as large a disincentive to formal employment as the increased levels of employment legislation and rising National Insurance Contributions have, arguably, been in recent years. Another serious danger is that employers may scale down their existing, better quality occupational schemes, which would conflict with the Government's aim of increasing retirement savings.

## EDUCATION

Education and awareness raising will be key factors in the success or otherwise of the scheme. However, the Small Business Committee foresees the following issues which may act as a disincentive and as such need to be considered by policy makers:

- The four percent salary sacrifice for low earners may prove to be a strong incentive to leave the scheme, and may result in reliance on means-tested benefits as the fall back option
- Low levels of financial literacy have led to the general lack of understanding of how complex pensions schemes work, which may prove to be another strong factor leading to low levels of participation
- Reliance of saving schemes on the performance of a fluctuating stock market may also fuel risk aversion and persuade employees to leave the scheme
- Some groups such as women who have taken career breaks to care for children, and other carers, may find that, by itself, the proposed personal accounts system does not provide sufficient income in retirement leading to the scheme missing the very vulnerable groups it is trying to cater for

Unless Government takes sufficient steps to inform workers about the scheme, it will inevitably fall to employers to respond to staff concerns about the fundamental issues outlined above. This would be unreasonable and likely to be met with business owners being unable to deal with such demands. In the absence of strong Government measures to address this issue, the Small Business Committee is concerned that the burden of education will fall

---

<sup>5</sup> Pension Bill Impact Assessment, December 2007.

on SMEs. Moreover, the Government will also need to effectively engage with the SME community in terms of education and awareness raising regarding employer's new administrative obligations under the scheme.

## RECOMMENDATIONS

ACCA Small Business Committee strongly supports Government efforts to respond to the need for enhanced saving for retirement. However, due to the issues identified above, there are genuine concerns as to whether the scheme as currently designed will ultimately lead to the desired outcomes. Particular attention should be given to ways in which the administrative burden could be curtailed. This is especially significant as the SME sector will be a crucial stakeholder on whom the overall success of the proposed scheme largely depends.

Going ahead with the scheme without adequately addressing the likely shortcomings only increases the possibility of yet another high-level review of pensions being required in the not too distant future.

ACCA Small Business Committee's specific recommendations include:

- Addressing the frequency with which records need to be passed over to the delivery authority
- Deferring automatic enrolment for new employees by one month after their start date. This approach would limit the extent of unnecessary enrolment as well as ease the position of businesses with a high rate of seasonal employment.
- Integrating the National Insurance and the personal accounts contributions in order to avoid further complicating an already burdensome system
- Providing clear guidance to the SME community about their new obligations under the scheme, and putting measures in place whereby employers who fall foul of their duties through lack of awareness are encouraged and supported, rather than fined or punished
- Government should acknowledge that the personal accounts scheme is effectively a new tax on employment and as such it needs to be introduced with an appropriate degree of care, attention and public accountability

**\*ACCA SMALL BUSINESS COMMITTEE**

**Chair: Professor Francis Chittenden, ACCA Professor of Small Business Finance, Manchester Business School**

Richard Aitken-Davies, ACCA Deputy President, **ACCA Council Member**

Riz Akhtar, Partner at R A & Co., **ACCA Council Member**

Professor Robert Bennett, Department of Geography, **University of Cambridge**

Professor Robert Blackburn, HSBC Professor of Small Business Studies; Director, Small Business Research Centre, **Kingston University**

Matthew Goodman, **Forum of Private Business**

Anthony Cushing, ACCA Council Member; Partner, **Moore Stephens**

Lucy Findlay, Head of Enterprise Group, **CBI**

Mark Gold, ACCA Council Member; Partner, **Silver Levene**

Lynsey Groom, Policy Development Officer, **Federation of Small Businesses**

Sara Harvey, ACCA Council Member; Director, **Hines Harvey Woods Ltd**

Julie Holderness, ACCA Council Member, Partner, **Roddis Taylor Robinson**

Scott Johnson, Business Owner, **W.F.Watt**

Dr Moyra Kedslie, **ACCA Council Member**

Mei Sim Lai OBE, Partner, **LaiPeters & Co.**

Sally Low, Director of Policy & External Affairs, **British Chambers of Commerce**

Michael Markham, ACCA Council Member, Director, **AM Accountants**

Ilyas Patel, Partner, **Ilyas Patel & Co**

Jason Parker, ACCA Council Member, Partner, **Parker Randall LLP**

Professor Monder Ram OBE, **De Montfort University**

Dr Richard Roberts, SME Research Director and Chief Economist, **Barclays Bank**

Tony Robinson OBE, Executive Chairman, **SFEDI**

Louise Third, Partner, **Integra Communications**

Erika Watson MBE, Executive Director, **Prowess**

Peter Windatt, Director, **BRI (UK) Ltd**

Mike Young, **Kempshott Research Management**

**ACCA SME Unit**

Professor Robin Jarvis, Head of SME Affairs, 020 7059 5975

Rosana Mirkovic, SME Policy Adviser, 020 7059 5735