

Are you ready for the upcoming increase in minimum pension contributions?

October 2017



The statutory minimum contributions that must be paid to defined contribution schemes is increasing from 2% to 5% (and possibly to 6% depending on the auto-enrolment certification route previously used) from April 2018.

What is changing?

The auto-enrolment (AE) minimum contributions are expressed as a % of qualifying earnings. However, if you use a different definition of contribution salary, then different rates apply from 6 April 2018, as shown in the following table.

| Method | Contribution salary on which contributions are based | Total / employer minimum contributions from staging date to March 2018 | Total / employer minimum contributions from 6 April 2018 | Total / employer minimum contributions from 6 April 2019 |
|--------|--|--|--|--|
| Core | Qualifying earnings | 2% / 1% | 5% / 2% | 8% / 3% |
| Set 1 | Pensionable earnings (must be at least equal to basic pay) | 3% / 2% | 6% / 3% | 9% / 4% |
| Set 2 | Pensionable earnings (must be at least 85% of total earnings*) | 2% / 1% | 5% / 2% | 8% / 3% |
| Set 3 | Total earnings (ie full gross salary) | 2% / 1% | 5% / 2% | 7% / 3% |

** this test is carried out across the whole demographic being considered for Set 2, not on a member-by-member basis.*

Note: depending on when you pay your employees the April 2018 (and April 2019) pension contribution may be a combination of the old rate and the new rate (eg for a monthly paid employee it will be 6 days at the old contribution rate and 24 days at the new rate).

There is no change to the operation of tax-relief on pension contributions so you can continue to use relief-at-source or net-pay methods as you do now. This is of course subject to the Government maintaining the current tax-relief regime for pensions in the 22 November 2017 UK Budget!

If you operate salary sacrifice then you may need to revisit employee employment contracts to see whether any changes are required due to the impact of increasing pension contributions (and consequent lower post-salary sacrifice pay).

Busting some myths around AE phasing

A. Are employees required to contribute?



One area that has caused confusion is that some employers believe there is a minimum level of employee contributions required, but this is not true. The legislation only sets out the total contributions required and a minimum rate to be met by the employer. If the employer wishes, it can pay the total required contribution in full with employees themselves not having to pay anything. Consequently, provided the total contributions set out above are met from April 2018 (and April 2019), there is no requirement to increase the current level of employee contributions.

B. Can the existing lower contribution scale continue to be offered?



Yes, but careful consideration will be needed on how you communicate this with employees as they would need to elect to remain on the lower contribution scale. When the next re-enrolment date comes around, members will need to be automatically re-enrolled at the higher rates legally required.

C. Do I need to consult with employees?



The answer to this is 'it depends'. If increases to employee contributions are being made as a result of the increase in the AE minima then there is likely to be no requirement to consult with employees. Any increases in excess of this are likely to fall within the usual employer consultation requirements. However, different legal firms have different views on this, and therefore we strongly recommend you check this point with your legal advisors if you are increasing employee contributions.

D. Am I required to communicate the increases to employees?



There is no requirement to communicate the increase in contributions to your employees, provided details on the expected future increase to contributions were included in the original communications that were issued when members were first auto-enrolled into the scheme. However, we expect many members may not be aware of the increase and therefore we strongly recommend you write to your staff to let them know that contributions will increase (and take-home pay will reduce).

Contractual enrolment

If you contractually enrol your employees into the pension scheme, via their contracts of employment, then you will need to check the wording of your contracts to see whether or not they include the authority to increase member contributions. If your contracts did not include details of the phasing of minimum contributions in April 2018 and April 2019 then you may need your employees' consent to make the relevant increases in order to meet your AE duties. If in doubt, you should check this with your legal advisors.

Checklist

Complete our checklist to assess the potential impact the increases in contributions may have on your pension schemes.

| Scheme set up | | Yes | No |
|---------------------|---|-----|----|
| 1 | Have you reviewed your contribution structure so your existing pension schemes still meet their duties as a qualifying scheme? | | |
| 2 | Have you assessed the increase in cost of the changes you plan to make? | | |
| 3 | Can you easily identify which employees will be affected? | | |
| 4 | Will you also address the next phase of contribution increases from April 2019 or will you address these increases separately? | | |
| 5 | Do your scheme rules need to be updated to reflect the change in minimum contributions? | | |
| Internal processes | | | |
| 6 | Have you had any changes to payroll providers / systems that may need reviewing ahead of the increase? | | |
| 7 | Is any internal training required ahead of the increases (for example, for staff who were not involved in the initial auto-enrolment exercise)? | | |
| 8 | Are the relevant internal departments (eg HR, finance) aware of the upcoming change, and any impact it might have on employees and/or the business? | | |
| Employee engagement | | | |
| 9 | Have you checked with your legal advisor whether you need to undertake a statutory 60 day consultation process with employees (for example, if employee contributions are being increased)? | | |
| 10 | Are you planning to communicate the increases to your members? If so, have you spoken to your provider to find out how they can help, and what existing communications and tools they have to aid member understanding? | | |
| 11 | Do your existing communications need updating to reflect the increase, and the impact it will have on employees' take home pay and pension savings? | | |
| 12 | Have you updated your HR systems (intranet, flexible benefits hubs) so that employees can easily find the answers to their questions? | | |

Want to find out more?

If you are unsure how to answer any of the questions above, would like support in preparing for the upcoming changes, or have any other questions, we can help. Get in touch with one of our experts to find out more.



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