

You and your pension - just when you thought it was all over...

In April next year the minimum contributions that must be paid into your pension scheme are increasing. We welcome back Vicky Quigley from Demna Consulting Ltd to take you through the changes.



After 5 years we are finally reaching the stage where all employers should now have gone through the Auto Enrolment process. It seems like we have been talking to organisations about Auto Enrolment forever - but just when you think you can relax and you have done everything needed, yet more changes are on the horizon!

As you may be aware, the Government sets the minimum levels of contributions that must be paid into your pension scheme for Auto Enrolment. Since Auto Enrolment began these have meant that a minimum of 2% of qualifying earnings must be paid into the pension scheme with at least half of this coming from the employer. You can of course choose to pay higher contributions than this, but these are the legal minimums that must be paid.

All this is changing from April 2018, with more changes planned for April 2019, and while Auto Enrolment has been staggered in the past, these changes apply to every UK employer at the same time.

Minimum contributions

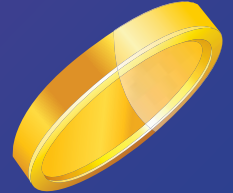
From April 2018, the total minimum contributions that must be paid into a pension scheme are 5% of qualifying earnings with at least 2% of this coming from the employer. This change will double your pension costs, so it is vital you make plans for this.

If you stick to the minimum contributions, then this means that your employees must make a pension contribution of 3% of their qualifying earnings to ensure you remain compliant from April 2018. These changes must happen from April 2018 meaning all employees who are already in your pension scheme must have these increases applied to their pay from April 2018 onwards.

As with the existing contributions, if you wish you can choose to pay more than the 2% required by the employer – so for example you could

choose to split the total 5% required equally (2.5% from the employer and 2.5% from the employee) or even choose to pay more (for example 3% from the employer and 2% from the employee). You as the employer can set the pension contributions for your pension scheme at whatever levels you want, provided they comply with the minimums set out above.

Given the increasing costs that most provisions are experiencing, we are expecting that the vast majority of employers will choose to adhere to the legal minimums – however if your employees value the pension scheme, choosing to do something more than the minimum required may be of significant benefit to you in terms of retaining staff or trying to recruit staff from elsewhere.



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Time to make a decision

Regardless of whether you choose to continue with the legal minimums or do something better, it is important that these decisions are made soon, to ensure you have time to implement the changes in payroll and communicate the changes to your employees. April 2018 will come around very quickly, and if you do not make the changes you will

not be compliant and subject to a hefty fine from The Pensions Regulator. Unfortunately, these changes are not the end – the minimum contributions required will rise again from April 2019, and although no further changes have been agreed following that, we do expect further increases will be required in the coming years.

Qualifying earnings is the name given to a band of earnings you can use to calculate contributions for auto enrolment.

For the 2017/18 tax year this is between £5,876 and £45,000 a year. The figures will be reviewed every year by the government. Ref: <https://www.nestpensions.org.uk>



So that you can be clear what the legal minimums are and what they are changing to, the following table summarises the contributions you must adhere to as a percentage of qualifying earnings:

| | Total Minimum Contributions | Employer Minimum Contributions |
|---------------------------------|------------------------------------|---------------------------------------|
| Up to 05/04/2018 | 2% | 1% |
| 06/04/2018 to 05/04/2019 | 5% | 2% |
| 05/04/2019 onwards | 8% | 3% |

What happens if your employees don't want to pay the higher amount?

Once you have made the decision on what contribution rates you plan to use going forward, the next question should be "what happens if my employees don't want to pay the higher amount?"

Given that the employee contribution is likely to increase significantly, you will undoubtedly be asked this question by your staff. The law requires the minimums above to be met, so if your employee doesn't want to pay the higher amount then they will have to opt out of the Scheme. It seems a little strange that an employee can't just choose to pay a lower amount and stay in the scheme, however the law requires them to formally opt out of the scheme so that their decision can be

recorded and provides evidence that the employer has complied with the regulations.

The employee can then choose to opt in to the scheme on a lower contribution rate - but by making the employee opt out of the increased contribution it ensures that you cannot be accused of not complying!

If an employee opts in to the pension scheme on a lower rate, then there is no obligation on you to make a lower employer contribution - so if you wish you can offer them the choice of paying lower employee contributions on the understanding that you will not then make any employer contribution to the scheme until they reach the minimum level required at that time.



For example: -

- **In April 2018, an employer makes a 2% contribution while the employee makes a 3% contribution.**
- **The employee decides they cannot afford to pay 3% of qualifying earnings and chooses to opt out of the pension scheme.**
- **The employee is still quite keen to save into their pension, but would like to keep their contribution at the current level of 1% of qualifying earnings, so they opt in to the scheme paying this lower amount.**
- **The employer does not have to make any pension contribution to the employees scheme, as they are not making the minimum contribution required of 3%.**
- **However, if the employer chooses to, they can continue to offer the 1% contribution (that is currently in place) if the employee opts in and chooses to pay 1%.**

It is down to the employer to choose what they do in this situation – the law states that they don't have to make any pension contribution if the employee is not paying the minimum required – however some employers may be happy to continue to offer the lower levels of contributions currently being paid.

Regardless of the decision you make on this, it is important that employer's do not coerce or convince their employees to opt out or pay lower contributions. The coercion rules that apply for Auto Enrolment still apply now, and you must ensure that any decisions made by an employee are theirs alone!

In our last article (see:<http://bit.ly/2ztVUdD>) we described the significant increase in fines and regulatory actions being taken by The Pensions Regulator against employers who are not complying with Auto Enrolment. The number of fines and actions continues to rise, and The Pensions Regulator has started to escalate matters as it is currently taking an employer to court as a result of continued non-compliance.

In addition to this, The Pensions Regulator has employed a team to undertake spot checks on random employers throughout the UK. These spot checks are not about the actions taken at your Staging Date, but are to ensure that employers are continuing to comply with Auto Enrolment on an ongoing basis. These contribution changes are part of that continued compliance, and while it is vital you take the necessary steps to comply with these changes we would strongly recommend that you regularly review the checklist contained in our last article to ensure all your ongoing processes are in order.

See also:

Auto enrolment – are you ready?
smalltalk (spring 2016) pg 8 – 11
If you require copies of our previous articles on Auto-Enrolment please email charlotted@walesppa.org or call: 029 2045 1242

How we can help

We offer a range of Fixed Fee Services to help all Employers get the good quality advice and assistance needed to ensure they fully comply with the new regulations.

For more information or a chat about how we can help you and your organisation please do get in touch by calling 0121 240 5378 or by emailing enquiries@demnaconsulting.com

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