XPS Pensions

# Briefing

**Note No. 2**
**January 2019**

# Auto-enrolment: minimum requirements to increase – are you ready?

On 6 April 2019, minimum contributions under the automatic enrolment requirements are increasing. You need to take action, communicate any changes to employees and ensure your scheme is still fit for purpose. Failure to do so could result in fines and negative publicity. Are you ready?

## In brief

- **Minimum payments will increase from 6 April 2019**
- **Employers have a duty to ensure their pension schemes are still fit for purpose**
- **Salary sacrifice, flexible benefits or contractual enrolment could complicate matters**
- **Non-compliance can result in negative publicity and fines on employers**

## Next steps

- **Review the costs and implications for your business**
- **Check that your existing scheme remains appropriate**
- **Agree a plan to comply with the law**
- **Optimise your NICs efficiency**
- **Ensure your employees understand and value the benefits you provide**

## Understanding and mitigating costs

The increase in contribution rates may mean that the cost of employing your staff will rise. You may wish to meet the increased costs by providing salary growth in the form of pension contributions or spread current pension spending more thinly. You may take a different view, wishing to offer all employees access to good quality pension provision.

Whichever approach you take, it would be opportune to check whether savings in national insurance contributions (NICs) can be made on both your and your employees' contributions. Understanding the implications of different approaches from a cost and risk perspective is important to ensure you meet your corporate goals.

## Consequences of non-compliance

It is your legal duty to make the minimum payments from 6 April 2019. Failure to do so could result in negative publicity and a fine of £400. In addition, daily fines of between £50 (if you have up to 4 employees) and £10,000 (500 or more employees) could apply. In serious cases, directors of firms can be subject to criminal prosecution and receive an unlimited fine and/or up to two years' imprisonment.

## Increased minimum contributions

By law, you are currently required to ensure the amount of minimum contributions you pay into your employees' workplace pension scheme is at least 2% of qualifying earnings. Employees will have to pay any shortfall needed to make the total minimum contribution up to 5%.

Minimum contribution levels will rise on 6 April 2019. You will then have to pay a minimum of 3% towards their pension, with the total minimum contribution reaching 8%.

You do not need to take any further action if you are already paying the increased minimum amounts.

## Definitions of 'earnings'

Many employers use a statutory definition of earnings to calculate contributions. This is 'band earnings' between £6,032 and £46,350 a year (proposed figures for the 2018/19 tax year). For the purpose of this calculation, 'earnings' includes salary, wages, commission, bonuses and overtime. Statutory payments for sickness, maternity, paternity and adoption leave must also be included.

Other employers choose to use a different definition of earnings. Options include calculating contributions based on:

- Gross earnings
- At least 85% of total earnings
- All earnings

If payments into your scheme are based on any of these, the minimum contribution increases will be different.

## Certification

If you have certified that the level of contributions you pay into a pension scheme meet the minimum requirements, it is important you check what you have certified.

Some employers specified that the certification period included one or both of the statutory increases in minimum contribution levels. If you did this, you need to be ready to calculate and deduct the increased amounts.

Other employers chose to certify at the higher increased amount for the whole certification period. If you did this, there will be no need for your payroll to make a change.

If you have not done either of these, then you may need to end the certification period early and re-certify with effect from 6 April 2019 based on the correct new total minimum contribution rate.

## Payroll

If you use an outsourced payroll service, you should check they are ready for the increases, and make sure they know when to deduct them. If you do payroll in-house, you need to be certain your software is ready for these increases.

It is possible that the increases will take place part way through a worker's pay period. For example, if your pay period is 1-30 April, the increases will be effective from 6 April. This means an increased pro-rated pension contribution deduction may be required for a pay period which includes 6 April 2019.

## Ensure your scheme is fit for purpose

Since the introduction of automatic enrolment, there have been many changes in pension legislation, not least greater freedom in how people can use their retirement savings. It is worth considering how well your pension scheme has kept pace with these changes and whether it still meets your needs. After all, it is important to ensure your employees value the benefits you provide.

## Engage with your employees

Depending on what you have told your employees so far, you may have to consult with them about the increase in minimum contribution rates.

When a member of staff was first automatically enrolled, the letter they received from you should have set out that contribution levels would increase over time. If you did this, there are no additional duties for you to advise staff about the increases.

If you did not explain that contributions would increase over time, you will need to engage with your employees. Further, if you offer a salary sacrifice or flexible benefits arrangement, or perhaps have adopted a 'contractual enrolment' approach, you may need to consult with employees to vary the contractual agreement you have with them.

It is good practice to engage with employees. It is important they understand the changes and value the benefits you are providing. It may also help to minimise any queries you receive.

## How XPS can help

**Auto-enrolment is not just about paying the right level of contributions; you need to ensure you have communicated appropriately with employees, and the pension scheme you use remains fit for purpose.**

*"Automatic enrolment is not an option, it is the law. If you refuse to become compliant you could end up with a criminal record – and will still have to give your staff the pensions they are due."*

***The Pension Regulator***

There are a number of actions you may need to take to navigate the auto-enrolment journey. XPS will work with you to ensure that you fully understand, and have mitigated, the additional costs you face.

XPS can help you to avoid the pitfalls and guide you to the most suitable outcome. We will work with you to ensure that your employees understand and value the benefits you provide.

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## For further information

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