Sackers

Auto-enrolment – minimum contribution increases from 6 April 2019

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Introduction

For DC pension schemes being used to meet an employer's automatic enrolment requirements, both minimum employer and overall contribution rates are set to rise from 6 April 2019. This is the second successive annual increase in minimum contributions and the last one which is currently scheduled to take place under legislation.

Key points

- To remain a "qualifying scheme" for automatic enrolment purposes, a DC arrangement must continue to meet the minimum contribution requirements.
- Where an employer is considering introducing or increasing member contributions to a DC arrangement, it will generally need to consult with affected members for a minimum of 60 days.

Background

The final round of increases in minimum contributions payable to DC qualifying schemes was originally scheduled to come into force with effect from 1 October 2018.

However, with the aim of easing the burden on employers (particularly smaller ones), the Government revised its statutory timetable. Planned increases in minimum DC contributions were therefore pushed back from 1 October 2017 and 1 October 2018, to 6 April 2018 and 6 April 2019 respectively (coinciding with the tax year).

Effect of the new minimum contributions

The table below sets out how minimum contributions have evolved since automatic enrolment came into force in 2012, as well as the rates which will apply from April 2019, assuming the statutory default mechanism of "qualifying earnings" (earnings between £6,032 and £46,350 for 2018/19) is used to calculate contributions.

Phasing period	Employer minimum contribution	Total minimum contribution
Before 5 April 2018	1%	2%
6 April 2018 to 5 April 2019	2%	5%
6 April 2019 onwards	3%	8%

However, many employers do not use the statutory default mechanism to meet minimum contribution requirements, preferring instead to use one of the permitted alternatives. Therefore, the actual percentage increase which will apply in a particular DC arrangement will be dictated by the elements of income which are pensionable. For example, where basic pay is used to calculate contributions, the minimum employer and total minimum contributions are set to rise to 4% and 9% respectively from 6 April 2019.

Actions for employers and trustees

Check current rules

As a first step, employers should check what their scheme rules currently say about minimum compulsory contributions, as some DC arrangements may already meet the legislative standard applicable from 6 April 2019 onwards. If not, an employer should consider its options.

Schemes may have "hardwired" the original timetable for contribution increases into their governing documentation, with increases therefore scheduled to take place from 1 October 2018. In such circumstances, a rule amendment (and consultation – see below) may be needed if the sponsoring employer wishes to take advantage of the new timetable.

Options for meeting the rise in contributions

As the automatic enrolment legislation does not require minimum employee contributions as such, it is up to the employer to decide how to bridge the gap between its minimum contributions and the total minimum contribution requirements. For example, looking at both ends of the spectrum, the employee could be asked to make up the difference between the two amounts or, alternatively, the employer could bear the entire cost. There are also several variations in between.

Requirement to consult

Where an employer is considering introducing or increasing member contributions to a DC arrangement, it will generally need to consult with affected members for a minimum of 60 days. Employers looking to adjust member contributions to meet the new minimum requirements from 6 April 2019 will therefore need to bear these requirements in mind.

Documentation

It may be necessary for the pension scheme's governing documentation to be amended to deal with the increase in minimum contributions. In addition, the scheme's trustees will have to revise their payment schedule which, among other matters, sets out the rates of contributions payable towards the scheme by or on behalf of the employer(s) and the active members.

Other checks to consider

Employers must ensure that their payroll systems are prepared to calculate and deduct any change in contributions. If there is a third-party provider, employers should liaise with them as soon as practicable to ensure that they will be ready for any changes.

If you have any questions on any of the above, **please speak to your usual Sackers contact**.

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