

Automatic Enrolment Contribution Rates

Employers must ensure that their pension schemes meet the minimum contribution requirements in order to be a qualifying scheme (for existing members) or used for automatic enrolment.

The contribution rates are being phased in over the period up to April 2019. Originally the increase dates were October 2017 and October 2018, but these were changed in 2015 so that the changes take effect from April 2018 and April 2019.

Employers (and trustees of occupational pension schemes) with defined contribution arrangements should check that everything is in place if they are intending to take advantage of the revised phasing date.

In this issue: [Background](#) | [Contribution Rates](#) | [Actions for October 2017](#)

Background

Most employers will have reached their staging date by February 2018. Others will have to comply with the legislation immediately they become an employer. Many of the largest employers will also be required to cyclically re-enroll those employees who opted out the first time around. Added to this is the end date of the first transitional period for minimum contribution requirements which initially was 1 October 2017 and is now 5 April 2018.

This means that the remaining part of 2017 and the first few months of 2018 will see a lot of activity in terms of automatic enrolment duties for employers.

Contribution Rates

Relevant DC Quality Requirement

To satisfy the minimum contribution requirements, an employer must make contributions to a defined contribution pension scheme in respect of a jobholder, and the total minimum contribution must be at least 8% of the jobholder's qualifying earnings in the relevant pay reference period. The minimum employer's contribution must be at least 3%. This is known as 'steady state' and applies from 6 April 2019. Originally, the legislation required that this applied from 1 October 2018.

Two transitional periods applied from the employer's staging date (starting in 2012 with the largest employers). Originally period 1 applied until 30 September 2017 and period 2 applied until 30 September 2018. The dates were changed to simplify the administration for the smallest employers by aligning the changes with tax years.

The following table shows the contribution rates and the duration of each transitional period:

Transitional period	Duration	Employer minimum contribution	Total minimum contribution
1	Until 5 April 2018	1%	2%
2	From 6 April 2018 to 5 April 2019	2%	5%
6 April 2019 onwards		3%	8%

Alternative DC Quality Requirements

Employers can self-certify that the pension scheme that they wish to use to fulfil their enrolment duties meets one of three sets of alternative quality requirements. As above, there is a ‘steady state’ basis that originally applied from 1 October 2018 and two transitional periods for each of the three sets.

The steady state basis applying from 6 April 2019 is shown in the following table:

Alternative DC quality requirement	Employer minimum contribution	Total minimum contribution
Set 1 (pensionable earnings must be equal to or more than basic pay for all relevant jobholders)	4%	9%
Set 2 (pensionable earnings constitutes at least 85% of earnings – with the ratio including all relevant jobholders)	3%	8%
Set 3 (all earnings must be pensionable)	3%	7%

The following table shows the contribution rates and the duration of each transitional period for each set:

Transitional period	Duration	Employer minimum contribution	Total minimum contribution
Until 5 April 2018			
1	Set 1	2%	3%
	Set 2	1%	2%
	Set 3	1%	2%
From 6 April 2018 to 5 April 2019			
2	Set 1	3%	6%
	Set 2	2%	5%
	Set 3	2%	5%

Actions for October 2017

Pension scheme trustees (and employers who use personal pension schemes as their qualifying scheme) should remind themselves what the scheme rules (or terms and conditions) say about contribution rates.

In some cases, the contribution rates will have been specifically written into the pension scheme rules and may provide that contribution rates change from 1 October 2018 and 1 October 2019. In other cases, there may be a reference to rates set out in the legislation.

Explicit Rates from October 2017

Where the increased rates are set out in the rules, or terms and conditions, and are said to apply from October 2017, the employer may wish to ignore the new later dates permitted by the change in legislation and apply the increased rates from October. The employer may do this, but they must ensure that the communication materials are correct and ensure members are aware that the increased contribution rates will go ahead from 1 October 2017.

If the employer wishes to take advantage of the delay, in the increase to the minimum employer contribution rate, then it is likely that this will need an amendment to the scheme rules, or terms and conditions, and the employer may need to consult with affected employees, as this could constitute a reduction in the rate of employer contributions. Refer to our FYI Alert 2017/51 for more details:

<https://analysis.hrservices.conduent.com/2017/08/01/employer-consultation-requirements/>.

Pension scheme trustees and providers, particularly those responsible for payroll, will need to be clear as to whether or not the contribution rates are increasing in October 2017, or not until April 2018.

Pension scheme trustees should check the payment schedule is worded appropriately and personal pension providers should check the qualifying agreements are also correct.

Rates Set in Legislation

Where the scheme rules, or terms and conditions, refer to the rates set in legislation, rather than explicitly define the rates, no changes will need to be made to the rules, or terms and conditions, and the increased rates will take effect from April 2018.

It is not a statutory requirement to advise the members of the change in the date of the increase. Members may, however, still wish to increase the contributions that they are paying between October 2017 and April 2018 to compensate for the delay in the increase in the employer's contribution rate. In any event, it would be good practice to advise members of the change in the date that the increased employer's contribution will take effect.

As above, all relevant parties should check that it's clear that the employer contribution rates are unchanged from October 2017.

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