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FYI®

For Your Information®

New Year's Resolution – comply with April 2019 auto-enrolment changes and consider DC pensions strategy

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Since 2012, automatic enrolment legislation has been rolled out across all employers with minimum contribution rates being phased in.

April 2018 saw total minimum contributions increase from 2% to 5%*. Minimum contributions will reach their steady state (for now at least) rate of 8%* from April 2019.

As a result, many employers will be changing contribution rates in April 2019 to remain compliant with legislation. This FYI considers the communication requirements associated with these changes, other compliance requirements and longer-term strategy and governance considerations.

* for employers using the legislative Qualifying Earnings definition for pensionable pay. Other rates apply depending on the definition of pensionable pay.

Employee consultation on contribution changes

Broadly, where employers are making changes to comply with the prescribed minimum contribution rates only, employee consultation on the changes for a minimum of 60 days is not required. Where employers are making changes that go beyond the legislative minimums, for example, requiring higher employee contributions, then employee consultation would be required.

With either approach, employers should communicate the forthcoming changes to employees so that they can plan accordingly for any changes in take home pay.

If consultation is required, this would need to be issued before the end of January to allow for the statutory 60-day process to run, with time to consider feedback and communicate the final changes before April 2019.

This is a good opportunity to highlight the pension scheme as an employee benefit and the advantages of saving for the future.

Salary exchange

Following a review in advance of the 2017/18 tax year, the government continues to allow salary sacrifice arrangements for pension contributions. Such arrangements may be a useful way to help mitigate the increased contribution requirements as they generate savings in National Insurance contributions for both employees and their employer.

If employers haven't already done so, they should consider whether to introduce salary exchange as pension contributions increase.

Other compliance requirements

With the associated increase in costs, many employers are focused on these April 2019 changes. However, employers still have a duty to monitor their workforce and comply with their requirements in relation to certification (required at the latest every 18 months) and re-declaration of compliance (required within five months of an employer's three-year re-enrolment date).

Strategy and governance

Having reached the steady state position with auto-enrolment legislation, employers may wish to review their DC pensions strategy. For example:

- legacy contribution rates may clash with the new auto-enrolment rates;
- they may have been using multiple providers to meet their duties, where one could now be feasible;
- the performance of their provider may not be meeting expectations, warranting a review; or
- change may be required following the outcome of The Pensions Regulator's process for authorising master trusts (the final list of approved arrangements will be finalised by April 2019).

Alternatively, employers may wish to improve the level of oversight they have of their provider to ensure they and their employees are receiving value for money.

How Buck can help

We can help with consultation or delivering engaging member communication. We can implement salary exchange and ensure ongoing compliance with auto-enrolment legislation. We can support a review of longer-term DC pension strategy or the pension provider. We can audit compliance against all of the auto-enrolment requirements and review processes, procedures, communications and reporting.

2019 looks to be yet another year of change for DC pensions. By April 2019, the introduction of auto-enrolment will have been completed – increasing pension scheme membership, with many more employees making a start at saving for retirement. The next key phase will be ensuring that employees are building up sufficient savings to support their retirement plans. Employees will look to their employers for support with their journey to retirement. In turn, employers can look to Buck for the support they may need.

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