PENSION AUTO-ENROLMENT COSTS FOR EMPLOYEES SET TO TRIPLE

By David Walker

According to The Pensions Regulator, almost 9 million people have been enrolled into a workforce pension scheme by around 850,000 employers, meaning that every employer in the country is now having to deal with providing pension contributions for their employees as a matter of course.

As we approach 5 April, it is a timely reminder that the Government are set to increase both the employer and employee pension contribution rates for those auto-enrolled from that date. Currently, the minimum total contribution for auto-enrolment is 2% of the employee's gross salary, with the usual split between employer and employee being a 1% contribution from the employer and a 1% contribution from the employee. From 6 April 2018 the minimum total cost is increasing to 5%, with a minimum contribution from the employer of 2%. In the vast majority of cases, this means that the employer cost is set to double from 1% to 2% and the employee cost is set to triple from 1% to 3%.

Warn staff now

Given this substantial increase, it would be advisable for employers to warn their staff of this increase now rather than just deduct the increased sum from their pay packet in April and give them a nasty surprise. Employers too will have to budget for the increased cost and factor this cost into the overall staff remuneration package. On 6 April 2019 the contribution is again set to rise with the employer cost increasing to 3% minimum, meaning the employee cost would increase to 5%. The Government is rightly patting itself on its back for the tremendous uptake of auto-enrolment pensions, but there is a danger that increasing contributions fivefold for employees in the space of a couple of years may mean that many people will start to opt out.

Budgets under pressure

Assuming the employer adopts the qualifying earnings method of calculation, an employee earning £20,000 will see their £141 per annum pension contribution increase to £423 this April followed by an increase to £705 in April 2019. With wage rises barely keeping pace with inflation, such increases in pension contributions will put many household budgets under pressure.

Re-enrolment

Employers are also going to have to start thinking about re-enrolment. Employers will recall that when they set up their auto-enrolment scheme some staff may have opted out at that time. Unfortunately, every three years an employer must put certain staff back into the pension scheme and this is known as re-enrolment. Employers will therefore have to assess their staff to see who needs to be put back into the pension scheme; write to those staff advising them that they have been put back in and thereafter complete the redeclaration of compliance before the redeclaration deadline. Those staff may once again opt out, but employers must go through the process to comply.

Robust systems required

Just to further cheer employers up, The Pensions Regulator is issuing fines, compliance notices and carrying out spot checks on targeted businesses. Up to the end of September 2017, The Pensions Regulator has issued over 60,000 compliance notices to remedy an employer contravention, almost 25,000 fixed penalty notices for failure to comply with a statutory notice or a specific employer duty and over 5,000 escalating penalty notices of between £50 and £10,000 per day. In our experience, however, The Pensions Regulator tries to encourage employers to be compliant first before using a big stick. The administration in relation to auto-enrolment is quite onerous and employers need to have a robust system in place to record all the details necessary to ensure compliance. As The Pensions Regulator is fond of quoting, automatic enrolment is now an integral part of setting up the PAYE process. Auto-enrolment is the law and it is not an option for employers.