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Pensions Update – It’s all change with Auto-Enrolment

It's all change with Auto-Enrolment . In October 2017 auto-enrolment hit its five-year milestone and we head towards the first increase in contributions.

What's involved and what might be the additional cost?

Background

Auto-enrolment began in the autumn of 2012 and in the last five years millions of workers have begun saving for a pension for the first time. On 1 October 2017, providing access to a pension for workers became part of setting up a new business. It was also due to be the point at which contributions would start to rise, but that has been delayed to April 2018 so it coincides with the start of the tax year.

No more staging dates ...

All newly created PAYE scheme will have auto-enrolment obligations as soon as the business employs or uses personal service workers who are aged between 22 and state pension age and earning (pro rata to their pay frequency) more than the earnings trigger (£10,000 p.a. 2017/18, but subject to annual review). This immediate obligation, or duty start date, replaces future staging dates, which continue until February 2018 for PAYE schemes in existence up to 30 September 2017.

“Cashtrak took over a complicated, costly accounting procedure and simplified everything for us with their expertise. We have saved a vast amount of money with online, timely submissions and streamlined technology.”

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... but you can still postpone

Employers will still be able to defer worker and jobholder assessments for up to three months. This is known as postponement and from 1 October 2017 will be known as deferral. All PAYE schemes will still be subject to a triennial re-enrolment for eligible jobholders who have opted out, and immediate re-enrolment for those returning to the UK from overseas.

Budget for those imminent increases

All businesses should be aware that employer pension contributions increase to 2% from April 2018 and 3% from April 2019. A doubling of contributions is a significant cost for any business but particularly for micro-businesses who have just started so are only just getting used to pension costs.

The Pensions Regulator is keen to avoid contributions in April being paid at two different rates. Therefore, unless your pension scheme rules preclude this, for any pay date that falls on, or after, 6 April 2018/2019, the whole of that pay period's pensionable pay will be subject to 2% contributions.

Any employer who pays the voluntary living wage should bear in mind that these rates go up in November annually and the statutory living wage is also reviewed in April 2018. You'll need to factor this into your calculations.

Opt-outs Up?

What no one can predict is the increase in pension scheme opt-outs in April 2018, as employee contributions also increase to 3% (a 300% increase for those on the minimum). It's obviously good advice to remain a pension scheme member if you can afford it, as you get an employer contribution and tax relief too. So can your pension scheme allow employees to remain a member but pay less than the statutory minimum? It's quite legal to do this, just every three years on re-enrolment the employee contribution will increase to the current statutory minimum and can then drop down again.

If you have any queries or would like any further information please do feel free to contact us:

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