First Briefing, January 2019
Auto enrolment update

Introduction

April 2019 will bring two updates for the auto enrolment regulations – contribution phasing and the annual changes in the various limits applying.

Contribution phasing

When auto enrolment was introduced, the Government set minimum contributions that would increase over time – the last of these planned increases will be on 6 April 2019.

What are the new rates?

The table below shows the how each minimum pay basis will increase:

		Current		From 6 April 2019	
	Earnings definition	**Employer**	**Total**	**Employer**	**Total**
Minimum compliant rates	Qualifying earnings	2%	5%	3%	8%
Set 1	Basic	3%	6%	4%	9%
Set 2	Basic *	2%	5%	3%	8%
Set 3	Gross	2%	5%	3%	7%

* where basic salaries must, in aggregate, be at least 85% of gross earnings.

Member communication and consultation

The required employee contribution is the difference between the minimum total contribution and the actual employer contribution. So, for an arrangement with contributions based on qualifying earnings an employee currently contributing 3% of qualifying earnings will see their contribution increase to 5% (1% of this will be via tax relief) in April 2019 if their employer decides to pay the minimum 3% contribution.

There is no requirement for employers to communicate these changes. However, given that the changes will, all else being equal, cause employees' take home pay to reduce, it might be a good idea to remind employees that this will be happening. This will ensure employees are prepared for the change and limit any queries received by HR/payroll.

First Briefing, January 2019
Auto enrolment update

Salary exchange for pension contributions?

The increase in employee contributions generates higher savings on National Insurance contributions where salary exchange is used. Implementing salary exchange at the same time as these contribution increases can soften the impact on take-home pay for individuals and lower the financial burden of increased contributions on employers.

Further details on salary exchange can be found in our previous Briefing Note here.

Change in qualifying earnings and other limits

The Government has confirmed it is maintaining the auto-enrolment earning trigger at £10,000 for the 2019/20 tax year. This is the level above which an eligible jobholder will be auto enrolled (albeit calculated per pay period). While the earnings trigger is not changing, the Income Tax personal allowance will rise in April 2019 from £11,850 to £12,500 – no tax is paid on earnings below this level.

Finally, the Government has confirmed that the lower and upper qualifying earnings limits will increase to £6,136 and £50,000 respectively from April 2019.

An increasing issue: the net pay trap

As the gap between the AE earnings trigger and the personal allowance has widened, this means more people will be caught by the 'net pay trap'.

This affects those lower paid workers in occupational pension schemes established as net pay arrangements. These lower paid workers do not qualify for any tax relief on their personal contributions as no tax is paid on their earnings. If their contributions were paid to a relief at source arrangement (generally 'contract based' arrangements, but also certain occupational schemes), they would get a 25% tax relief top up on their own contributions despite not paying tax.

The Pensions Regulator is aware of this issue and believes that employers should consider the impact of this on their workforce and if appropriate, consider making alternative arrangements for impacted employees.

Who can you contact for further information?

Antonia Balaam Email: antonia.balaam@firstactuarial.co.uk Tel: 01732 207 517 or 07852 929 804	**Simon Redfern** Email: simon.redfern@firstactuarial.co.uk Tel: 01732 207 577 or 07453 973 174

Please contact your usual First Actuarial consultant, or any of the First Actuarial auto-enrolment team, if you would like to discuss anything contained in this Briefing or to do with auto-enrolment generally.