ROYAL LONDON

AUTO ENROLMENT AND THE EMPLOYER DUTIES – PHASING OF CONTRIBUTIONS FACTSHEET

Phasing of contributions allows employers and workers to spread the cost of contributions for auto enrolment over a period of time. This factsheet will tell you what you need to know about phasing and will explore some of the areas you should consider if a client is thinking of phasing contributions for their pension scheme.

We've based this factsheet on our current understanding of the relevant legislation and regulations (including drafts) which might change in the future.

THE BACKGROUND TO PHASING OF CONTRIBUTIONS

The government recognised that the introduction of auto enrolment and the employer duties would create new costs and administrative requirements for employers at a time of economic uncertainty. To help employers spread the cost they introduced phasing of contributions. This allows employers and workers to build up contributions gradually from the employer's staging date to April 2019.

There are four options available to meet the contribution quality requirements for an auto enrolment scheme. The table below shows each of these options and how they can be phased in from the employer's staging date.

	7% of all earnings[1]		8% of pensionable salary provided 85% of total payroll is pensionable[1]		9% of pensionable salary		8% of qualifying earnings	
	Total must be	Employer must contribute	Total must be	Employer must contribute	Total must be	Employer must contribute	Total must be	Employer must contribute
Employer's staging date to 5 April 2018	2%	1%	2%	1%	3%	2%	2%	1%
6 April 2018 to 5 April 2019	5%	2%	5%	2%	6%	3%	5%	2%
6 April 2019 onwards	7%	3%	8%	3%	9%	4%	8%	3%

1 Earnings must include everything that's included in the definition of qualifying earnings.

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Workplace pensions

USING PHASING OF CONTRIBUTIONS TO SUIT YOUR CLIENTS' BUSINESS

- Employers can tailor the way they phase their pension contributions to suit their business. The only condition is that they meet the contribution quality requirements at the dates set out in the table on page 1. However both the employer and workers can choose to pay more than the minimum.
- The contribution levels can be higher than the minimum contribution quality requirement set by the government.
- The phasing dates don't have to be in April. Employers can decide when they want contribution levels to change and can align the phasing date with other key company dates, such as the pay review date.

CONSIDERATIONS FOR EMPLOYERS

For employers thinking of phasing contributions within an auto enrolment scheme, there are a lot of things they need to consider and they'll need your help to make sure they understand the implications.

The impact of phasing of contributions on administration

- Employers will need to put processes in place to ensure the right contributions are deducted at the right time.
- Employers will need to have robust administration systems in place that can cope with the additional administration required for phasing of contributions.

The impact of phasing of contributions on scheme design

- Employers should think about aligning the phasing dates with other key company dates to simplify the administration of the scheme.
- Employers who decide to use different contribution shapes will need to be able to deal with different processes and rules applying to each category.
- Employers can decide to use phasing for parts of their workforce. For example, if there's an existing scheme which already meets one of the contribution quality requirements, employers could consider using phasing of contributions for new entrants to the scheme to help spread the cost of contributions.
- Some employers may want to consider phasing contributions before their staging date. This could benefit small employers who have a later staging date and won't benefit from following the governments' phasing dates.

Phasing in practice – A basic example

- Unique Dressmakers employs less than 30 people and their staging date is April 2017.
- The employer and the scheme members both currently make pension contributions of 3% of pensionable salary.
- The salary review date for the company is April each year.
- The employer has decided to use phasing of contributions to meet the 9% certification option.
- To help make the increase in contributions more manageable for scheme members, the employer decided to phase in contributions from April 2013.
- To simplify the administration of the scheme the employer has decided that contributions will increase each April at the same time as salaries increase.

Phasing date	Member contribution rate	Employer contribution rate
April 2013	3%	3%
April 2014	4%	3.5%
April 2015 onwards	5%	4%

The impact of phasing of contributions on the workforce

- Phasing of contributions allows workers to spread the cost of retirement saving by building up their contributions gradually.
- For employers who decide to phase contributions, the total contributions made will be lower than if phasing had not been used. They should consider the impact this will have on their workers' retirement benefits.

Phasing in practice – A basic example

- John works for Tasty Foods Ltd. and earns £15,000 each year.
- The company have decided to use a total contribution rate of 7% of all earnings for their auto enrolment scheme.
- From April 2019 the minimum worker contribution must be 4%.
- The company has decided to phase in the minimum amount of contributions from April 2017.
- We have assumed that John's salary doesn't change.
- This example shows how low contributions could be if phasing of contributions is used.

Phasing date	John's contribution rate	Total monthly contributions
April 2017	1%	£12.50
April 2018	3%	£37.50
April 2019	4%	£50.00

Using phasing of contributions with an existing pension scheme

- Employers will have to consider how to treat existing members. For example, if contributions are currently higher than the minimum contribution quality requirement it's unlikely that they will want to reduce them to the minimum level and then increase them back up again.
- Employers will have to consider how they will treat new entrants to the scheme. They may want to use phasing of contributions to help spread the new cost of contributions.

Phasing in practice – A basic example

- Paperprint employs 550 people and their staging date was November 2013.
- The employer has a pension scheme in place which has 200 members. The employer is concerned about the cost of having to provide pension benefits for the remaining 350 workers.
- The employer is not changing the contribution structure for auto enrolment as it meets the 8% certification requirements.
- The employer and current scheme members both make pension contributions of 4% of pensionable salary.
- The salary review date for the company is April each year.
- To help make the increase in contributions more manageable for Paperprint and the new scheme members, the employer decided to phase in contributions from April 2013.
- To keep the administration of the scheme simple the employer has decided to phase in contributions in April to keep changes to salaries and pensions contributions in line with each other.

Phasing date for new entrants	Member contribution rate	Employer contribution rate
November 2013- April 2014	1%	1%
April 2014-15	1%	1%
April 2015-16	2%	2%
April 2017-18	3%	3%
April 2018 onwards	4%	4%

The impact of phasing of contributions on communications

- Employers will need to communicate to workers how phasing works, what the benefits are and what impact it will have on them.
- Employers will need to communicate with their workers each time a new phase begins to let them know their contributions will increase.

The impact of phasing of contributions on provider selection

- If the minimum contribution quality requirement is phased in, the total contribution levels will be low and this may affect the commercial terms and services provided to employers by their pension provider.

HOW ROYAL LONDON CAN HELP

As you can see there is a lot to think about when considering using phasing of contributions for a pension scheme. We're pension experts and we want to work with you to prepare for auto enrolment and the employer duties. To find out more speak to your usual Royal London Contact or visit the auto enrolment area of our website at:
Advisers – **adviser.royallondon.com/autoenrolment.**
Employers – **employer.royallondon.com/autoenrolment.**

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