



Understanding Minimum Contribution Increases (Phasing) and its Implications



This guide looks at what you must know about processing the increases in contribution rates in 2018 (and clients should thank you for it).

Understand how and why these new changes will affect your payroll processing and your clients.

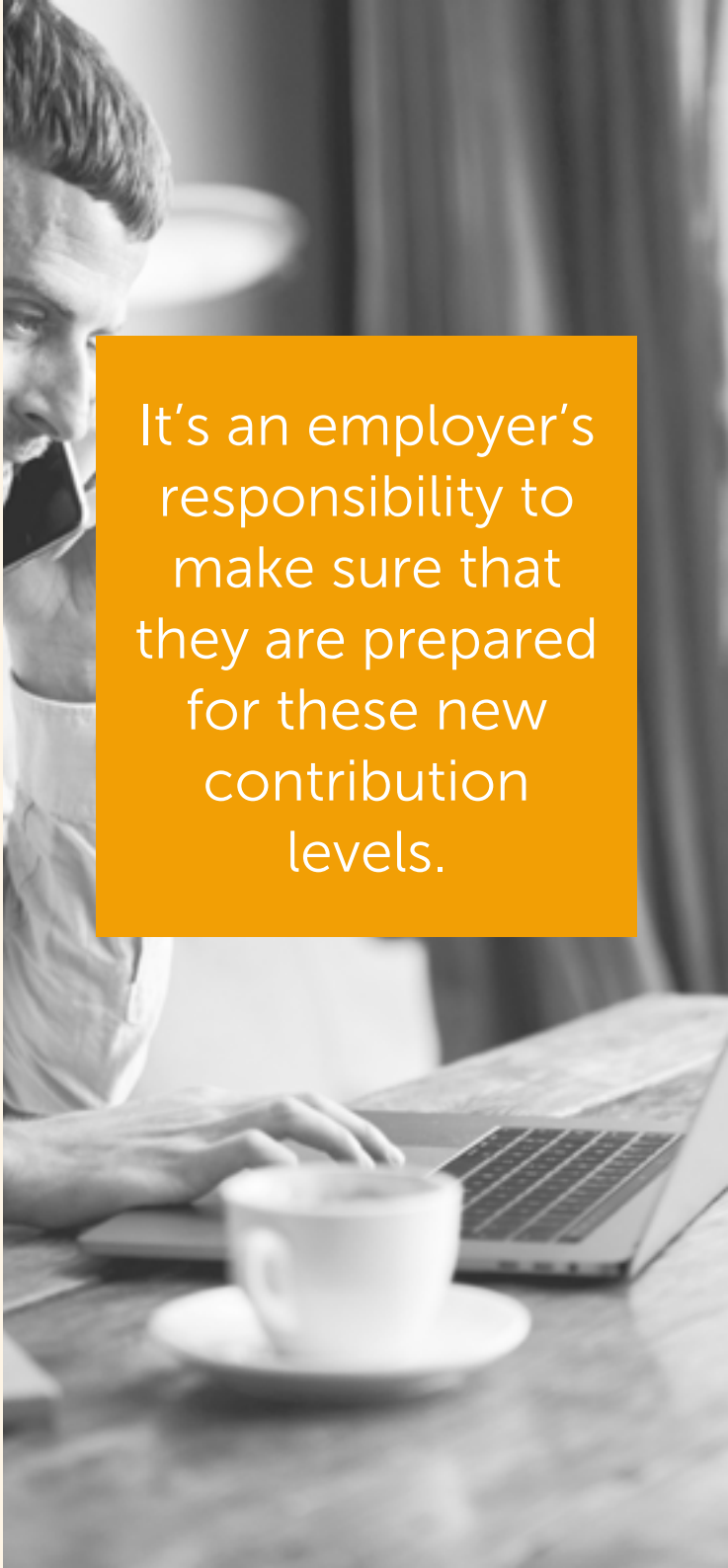
An Introduction to Phasing

By law, the minimum contributions rates for automatic enrolment are set to increase within the next 12 months. There are two stages to the increase in minimum contributions, which has been described as phasing. The first increase will take place this coming April and the second increase in April 2019.


	Total must be at least (% of qualifying earnings)	Employer must contribute (% of qualifying earnings)
October 2012 to 5 April 2018	3%	1%
6 April 2018 to 5 April 2019	5%	2%
6 April 2019 onwards	8%	3%

On the 6th April 2018, the total minimum contribution will increase from 2% to 5%. Employers will need to contribute a minimum of 2%. Employees will need to contribute the remaining 3%.

Minimum contributions will undergo further increases on 6th April 2019, with the total minimum contribution rate increasing to 8%, representing a 3% employer and 5% employee contribution.



It's an employer's responsibility to make sure that they are prepared for these new contribution levels.

A close-up photograph of a hand holding a silver pen, poised to sign a document. The document is open, showing some text and lines. The background is slightly blurred, focusing on the hand and the pen.

“Contracts of employment may need to be amended if a salary sacrifice agreement is in place”

An Introduction to Phasing

The employer may choose to contribute a higher amount to the pension scheme if they wish. If an employer chooses to pay more than the employer minimum but less than the total minimum amount, then the employee must make up the difference.

If an employer wishes, they can also decide to pay the total minimum contribution rate which is 5% from April 2018 and 8% from April 2019. In these cases, the employee does not have to pay any contributions, unless the rules of the pension scheme say otherwise.

In certain cases where the employee and employer are contributing above the current minimum requirement to the [workplace pension scheme](#), an increase in contributions will not be required if the total contribution is above the increased minimum contribution.

If an employer is making pension contributions as part of a salary sacrifice agreement, it is important to note that their employees' contracts of employment may need to be reviewed and amended as a result of phasing. For example, consider an employee whose current contract of employment states that they will sacrifice 1% of their salary in return for the employer to pay the equivalent amount into the pension scheme along with their own 1% employer contribution – how will the new April 2018 minimum requirement now be met?

Who does phasing apply to?

The Pensions Regulator (TPR) is sending letters to all [employers](#) informing them about the increases happening in April. Phasing will apply to all employers who have staff enrolled into a workplace pension scheme. For employers who don't have staff enrolled then they do not need to take any further action.


However, all employers must assess their employees on an ongoing basis to see if any of their staff become eligible for automatic enrolment.

Where an employee becomes eligible then the employer must process the minimum contributions that are applicable at that current time period.

Phasing also applies to new employers, whereby if an employer reaches their auto enrolment duties start date on or after the 6th April 2018 they will immediately be required to comply and implement the total minimum 5% contribution rate. Equally, employers who reach their duties start date on or after the 6th April 2019 will need to comply with the total minimum 8% contribution rate.



"New employers must process the minimum contributions that are applicable at that current time period."

A grayscale background image showing a hand placing a coin on top of a tall stack of coins. There are several other smaller stacks of coins in the foreground, creating a sense of depth and financial accumulation.

“Ensure that your current payroll software will handle the increased contribution amounts.”

Are employers ready for contribution increases?

Employers need to make sure they understand the upcoming contribution increases and how the changes will apply to them and their staff. It will be important for employers to plan ahead and be ready for the increases from the 6 April 2018 and the 6th April 2019.

The Pensions Regulator is advising employers to check with their current [payroll software](#) provider to ensure it will handle and calculate the increased contribution amounts.

Be aware that HMRC's Basic PAYE Tools does not cater for the needs of automatic enrolment calculations. Employers who use [Basic PAYE Tools](#) continue to be at a high risk of receiving a fine for non-compliance as their assessment and contribution calculations must be manually calculated.

Are employers ready for contribution increases?


In preparation for phasing, employers should ensure that their chosen pension scheme is qualifying and take caution to ensure the correct contributions are deducted.

Ensuring the correct contributions are deducted


Employers must know when and how much to deduct when both sets of increases come into effect. Typically any good [payroll software](#) will automatically prompt you when the increases happen in real time. Take steps to ensure that the increases have been put in place correctly, particularly for the first payroll run. It is important to note that increased contributions are to be processed on the first pay date after 6th April.

Ensuring the pension scheme is qualifying

Pension providers have already begun to take steps to allow for the increases. If your current scheme doesn't support the increased contributions, you should speak to your pension provider to allow the new increased rates.

A close-up, slightly angled photograph of a white electronic calculator. The calculator is positioned diagonally across the frame. A semi-transparent yellow rectangular box is overlaid on the right side of the calculator, containing white text. The calculator's buttons, including numerical digits and function keys like 'MRC', 'M-', 'M+', and 'AC', are visible. The background is a neutral, light grey surface.

“Increased contributions are to be processed in the first pay date after 6th April”



"It's best practice to clearly communicate with employees to let them know before the increase takes place."

Informing employees about the contribution increases

Some pension providers have already begun to communicate the increases to their customers and their members. It would be a good idea to touch base with your current [workplace pension provider](#) to find out what kind of support they are offering to inform staff about the increases as not all pension providers are doing so.

Unlike the initial assessment and enrolment at the staging date or duties start date, it is not a mandatory requirement to inform or write to staff about the increases in minimum contributions.

However, it would be considered best practice to clearly communicate with employees to let them know before the increase takes place.

This will help minimise confusion and reduce queries. Some employees may even decide to opt out of the workplace pension scheme due to the increased financial cost.


The Pensions Regulator has a sample letter template available to employers to give to the staff which should help employees to understand the upcoming changes. [Letter template for letting staff know about the increase in contributions.](#)

Implementing the increases in Payroll Software

Your [payroll software](#) should easily and automatically calculate the phased increases for you. It's important that you check that your chosen pension scheme and payroll software can support the phased minimum rates. If you are an accountant looking after [auto enrolment](#) for your clients, it will be your responsibility to make sure that the correct amount of pension contributions are being deducted and to inform your clients about these increases.

If your payroll provider is not prepared for the increases, the correct amount may not be paid to the workplace pension scheme on time. Any delay in implementing the minimum contribution increases would result in non-compliance and may result in fines if it is not rectified.

BrightPay can automate and calculate the increases for you. [Book a demo](#) today to find out how seamless it can be to process increased minimum contribution rates.



"Any delay in implementing the minimum contribution increases could result in non-compliance fines."



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Satisfaction Rate**



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BrightPay Payroll & Auto Enrolment Software

[BrightPay](#) is the perfect solution for payroll bureaus to process auto enrolment duties for their clients. From just £249 + VAT per tax year, BrightPay's bureau licence includes unlimited employees, free phone & email support.

BrightPay also includes full auto enrolment functionality at no extra cost, including alerts for new employers regarding their duties start date, increases in minimum contributions and re-enrolment.

[Book a demo](#) today to see just how seamless auto enrolment can be with BrightPay. You can also check out BrightPay [customer testimonials](#) or download a [60 day free trial](#).

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