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# Changes to auto-enrolment

Minimum employee contributions to treble in April 2018.

Most people in full-time employment are used to sacrificing 1% of their monthly pay packet in return for their employer matching the contribution into their workplace pension.

Depending on your employer's staging date, that scheme's been in place since 1 October 2012 and you probably don't miss the small sum going out of your wages each month.

Since that autumnal day five and a half years ago, more than nine million workers over the age of 22 and below state pension age have been automatically enrolled.

The scheme has fundamentally changed the way workers save and, with more than one million employers now fully compliant with auto-enrolment, the next phase of the government's flagship scheme will get under way from 6 April 2018.

## What's changing?

The minimum staff contribution will increase from 1% to 3% for all workers who are automatically enrolled into a workplace pension. At the same time, employer contributions will double to 2%.

You and your employer both have the option to pay more than the minimum into the pension if you choose.

If your employer decides to pay more, you'll only be required to make up the difference to the total minimum of 5%.

For example, if your employer decides to pay in 3%, your contribution will only need to be 2%.

## Will this affect me?

Auto-enrolment usually applies to all workers in the UK between 22 and state pension age who earn more than £10,000 per year.

If you fall into that bracket it's likely you'll be one of the 9.3 million people who will see their workplace pension contributions increase in 2018/19.



## What happens if I change jobs?

If you change jobs, your new employer is legally obliged to automatically enrol you into their workplace pension plan and meet the minimum contributions limit of 2% in 2018/19.

However, it's possible that your new employer may use a different pension provider to your old employer.

According to research from Aegon, more than one in five (21%) savers have lost track of a pension and 67% would be interested in combining various pensions with a single provider.

There are various pros and cons involved with consolidating several workplace pensions into one plan, and it is essential to speak to a financial adviser to weigh up your options.

## What if I become self-employed?

Around a fifth of the UK's 23.7 million full-time workforce plans on becoming their own boss in 2018.

If you decide to make the switch to self-employment, you'll lose your entitlement to a workplace pension as auto-enrolment does not currently extend to sole traders.

With that in mind, you could consider setting up a one of the following:

- ordinary personal pension
- stakeholder pension
- self-invested personal pension.

## What if I have more than one job?

If you have more than one job, each one will be treated separately for the purposes of auto-enrolment.

As long as you meet the qualifying conditions in each job, your employer will need to automatically enrol you in their workplace pension scheme.

If you'd prefer not to be a member of several schemes, you can choose to opt out of one, but you don't have to and it's important to fully understand your options before doing so.



# Changes to auto-enrolment

## How does it work?

Contributions are made on your total earnings before tax, including salary, overtime, bonuses, commission and statutory pay.

However, in most auto-enrolment schemes, contributions are only made on your qualifying earnings. This is the amount of your total earnings between lower and upper bands.

The lower limit for qualifying earnings in 2018/19 is £6,032, while the upper limit is £46,350.

You can choose to contribute more towards your workplace pension if you wish, and the same applies to your employer.

## What are my options?

For the overwhelming majority of workers, it's a good idea to stay in a workplace pension.

In fact, in a 2016 survey by the National Centre for Social Research, 80% of employees agreed that it's worthwhile to save into a workplace pension.

Regular saving will put you in a better position for retirement, and you'll benefit from government tax reliefs as well as employer contributions if you stay in the scheme.

### Example

Joe earns £28,600 a year before income tax and national insurance contributions are deducted, while his employer makes contributions on his qualifying earnings (£22,724 in 2017/18).

In 2017/18, his total annual workplace pension savings came to £454.48. This includes annual tax relief of 20% on his employee contributions equating to £45.45.

After the minimum contribution rates for both Joe and his employer rise in 2018/19, his yearly savings will increase to £1,128.36, with tax relief of 20% on his employee contribution at £90.27.

Minimum contributions	2018/19	2017/18
Qualifying earnings	£22,568	£22,724
Employee contribution	£677.04 (3%)	£227.24 (1%)
Employer contribution	£451.36 (2%)	£227.24 (1%)
Total yearly savings	£1,128.36	£454.48

## Opting out

In some circumstances, it may make sense to opt out. You might consider doing so if you are planning to retire in the next year or two, or if you have large debts to pay.

Opt-out rates are currently estimated at 9%, with young people the most likely to stay in a scheme and people in their early 60s most likely to opt out.

Only 7% of those aged under 30 opted out, according to government research, compared to 23% of over-50s.

It is also possible, under some schemes, to 'opt down' to a lower contribution rate within the first six weeks of being enrolled.

However, you will no longer qualify for the scheme if you choose to do this, so your employer will not be legally required to contribute to your pension.

Your employer cannot encourage or pressure you to opt out of auto-enrolment or reduce your contributions, and they will be required to re-enrol you every three years.

Whatever your reason, speak to an expert before making any changes to your workplace pension.

## Future changes

Auto-enrolment is being phased in, with planned stages gradually introducing more people to workplace pension saving. The increased minimum contribution in April 2018 is the second stage.

In April 2019, the total minimum contribution will increase again to 8%, with 5% of this paid in by employees and 3% by employers.

At this moment in time, this is the final increase to minimum contributions.

Date	Minimum staff contribution	Minimum employer contribution	Total minimum contribution
Before April 2018	1%	1%	2%
2018/19	3%	2%	5%
After April 2019	5%	3%	8%

Research by Aegon suggests that in total, the increases to minimum contributions up to April 2019 will result in an extra £5.29 billion for savers across the UK.

The Department for Work and Pensions carried out a review of auto-enrolment in 2017, setting out plans for future changes.

These include **lowering the age limit from 22 to 18**, which would bring an estimated 900,000 people into auto-enrolment.

There are also plans to calculate pension contributions **from the first pound earned**, rather than from the lower earnings limit.

The trigger for earnings that qualify someone to be automatically enrolled is **set to stay at £10,000**, but will be subject to annual review.

The government plans to work on increasing **pension savings for the self-employed**, with "targeted interventions" planned for 2018.

Contact us to discuss your savings strategy.

### Important Information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to change in the future. Pension eligibility depends on individual circumstances.

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