Arthur J. Gallagher

Pension Auto-enrolment: Compulsory minimum contribution increases are imminent. Are you ready?

Here are some tips to ensure the best outcomes for your employees and your business

Why the urgency?

Total minimum pension contributions will increase from 2% currently to 8% by April 2019 as per the table below.

Date effective	Employer minimum contribution	Member contribution (gross)	Total minimum contribution
Currently until 5 April 2018	1%	1%	2%
6 April 2018 to 5 April 2019	2%	3%	5%
6 April 2019 onwards	3%	5%	8%

This is a potential five-fold increase in staff commitment within a relatively short period of time, not to mention at least a three-fold increase in employer obligations.

> **"Without careful planning, employers may face an increase in opt-outs, queries, issues and, ultimately, employee disengagement."**

Why prepare your business?

It goes without saying that your business will need to factor in the significant cost increases of your Workplace Pension Scheme contributions under Auto-enrolment legislation. Most organisations need to work within budget limitations and have other mandatory costs they need to fund too. It is important to consider the overall sustainability of your employee benefits programme and how you link the cost of maintaining it to the part it plays in recruiting and retaining the people you need to help your business thrive.

Why prepare your employees?

From your employees' perspective, these contribution increases may be difficult to swallow. In an environment where the costs of getting to work, buying groceries, and paying for childcare are increasing faster than their take home pay, it's understandable that many will feel they need to prioritise today, not tomorrow.

Such significant changes will not be welcomed if they have seemingly sprung from nowhere, so communicating the impact, the reasons, and importance of these increases is critical. Your employees deserve the opportunity to consider both what's important to them as well as how they will accrue a retirement fund that will enable them to retire comfortably. There is equal importance for employers in ensuring employees can afford to retire in a timely way when they want: failing to support this could mean an ageing, more expensive, and less productive workforce.

Some important questions you need to answer

- What is the current salary basis used to calculate both employer and member contributions?
- In each group of staff, who pays what?
- How does this fit with the increased commitment required? Should the current basis remain or does it need re-thinking?
- If you have certified your contribution rates using one of the 'Sets', does your scheme certificate need to be reviewed?
- Have you already committed yourself to a programme of increases?
- Have the increases been factored into budgets / forecasts for coming years?
- Can your payroll system (or outsourced payroll firm) cope with these changes?
- Offers of employment need to be carefully considered both now and particularly in the first quarter of 2018 and 2019. What strategy are you adopting for new staff?
- Do you understand the impact of the increases on any future growth plans such as merger and acquisition activity and has a suitable budget been factored in?
- Will your employees be able to afford their additional contributions? What flexibility do you want to offer and how will that affect your mandatory duties?
- Will your pension provider(s) be able to offer the flexibility that you require?

Actions you can take now

- Understand your current situation.
- Decide how you are going to address the changes.
- Assess the financial impact in good time so increases don't come as a nasty surprise to your finance department.
- Communicate clearly and explain the reasons for the increases to manage the potential impact on employee morale.
- Be prepared to execute the changes within payroll.
- Agree how to deal with staff queries and concerns.

Communicate proactively to control the message

- Do staff remember any previously agreed increases and when was this last communicated?
- Are staff aware of the impact on their take home pay and what reaction do you expect?
- How will you communicate increases to staff? Will it be in writing, as a briefing or 'refresher' presentation?
- Do employee handbooks, benefits guides, intranet pages and employment contracts need reviewing?

Increases to Auto-enrolment minimum contributions will present potentially complex challenges to many employers. If you have yet to fully consider the impact on your business and your employees, get in touch - we can help.

Why choose Arthur J. Gallagher

We help organisations become destination employers that can easily attract, inspire and retain the people who fuel their growth and success.

Arthur J. Gallagher is the chosen partner to HR, Reward and Benefits Practitioners around the world. We bring together employee benefits, personalised financial planning, total reward and employee communications into a single strategy that enables your people and business to prosper.

This means we will help you achieve the maximum impact and value from your benefits and reward spend and empower your people to make the best decisions for their health, wealth and future.

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