

Auto-escalation begins in the UK, with 'close monitoring'

By Editorial Staff Thu, May 17, 2018

In the UK, the minimum contribution to auto-enrolled defined contribution plans will reach 8% in April 2019, including a 3% mandatory employer contribution.



The UK's experiment with auto-enrollment in workplace defined contribution retirement plans and auto-escalation of minimum contribution for auto-enrolled workers is entering a new stage and getting new scrutiny from the British government, *IPE.com* reported.

In April, employees' minimum contributions to auto-enrollment defined contribution (DC) plans rose to 3% of salary from 1%. The employers' contribution rose to 2% from 1%. The UK government said that it is "closely monitoring" the impact on employers and employees.

Next April, the minimum will rise again to 8% in total, with the employer contribution reaching 3%.

Since auto-enrollment started in 2012, pension participation in the UK has reached record high levels. Auto-enrollment had brought 9.5 million people into pensions, according to the UK's Office for National Statistics. As of 2017, nearly three-quarters of employees (73%) "had an active workplace pension scheme," up from less than 47% in 2012, the ONS said.

Malcolm McLean, a senior consultant at Barnett Waddingham, an independent provider of actuarial, administrative and consulting services, warned that any delay to next year's planned increase would be "a very retrograde step" and that "many commentators have already expressed concern at the low level of minimum contributions required for auto-enrolment purposes."

"As of yet there appears to be no clear plan to increase them further beyond 8%. Even at this level, for many people, it will not deliver a meaningful pension income at retirement and will call into question the validity of the policy and consumer appreciation of it," he said.

Nonetheless, the government is "closely monitoring the impact of the increases on both employers and individuals to inform our approach to supporting the second planned

increase in contributions from April 2019,” said undersecretary Baroness Buscombe of the Department for Work and Pensions (the UK equivalent of the U.S. Labor Department) in response to a query from the House of Lords.

“There has been a long lead in time to enable employers and individuals to prepare for these increases, with support and communications from the Pensions Regulator and DWP,” Buscombe wrote. “The increased contributions were scheduled to coincide with changes to take-home pay [that] normally take place at the start of the tax year, to help minimize the administrative burden for employers.”

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