Government Actuary's Department

Briefing note

February 2016

Auto-enrolment post April 2016

Employers who wish to use their pension scheme for auto-enrolment should satisfy themselves that their pension scheme meets the "minimum requirements" (as well as the other aspects of the qualifying criteria and the auto-enrolment criteria[1]).

Impact of the end of contracting out in April 2016

Until April 2016, schemes have been able to rely on their status as a "contracted-out" pension scheme to meet the minimum requirements.

However, when contracting out is abolished from April 2016, schemes will need to use an alternative approach to show that the benefits they offer exceed the minimum. From all of the options available, we would expect public sector employers to use the 'cost of accruals' test to show that their scheme meets the minimum requirement for auto-enrolment.

The cost of accruals test

The cost of accruals test is based on the cost of providing members' benefits. That is, the total contribution rate paid by employers and employees to pay for a year of future benefit accrual. It excludes any adjustments to actual contributions paid in respect of scheme deficits or surpluses.

The contributions required to meet the cost of accruals test depend on the earnings on which contributions are paid. The table below shows the minimum contribution rates which are most likely to be required for the public sector schemes. If you need information about other earnings definitions, please contact your actuarial adviser.

Pensionable Earnings definition	Accruals test minimum contribution rate
All earnings	9%
All basic pay	11%
Basic pay in excess of National Insurance Lower Earnings Limit or the amount of the Basic State Pension	13%

Employers can rely on calculations made for the 2012 actuarial valuation reports which were carried out under HMT directions[2].

Where a scheme has more than one form of benefit structure, the cost of accruals test must usually be applied separately for each benefit scale (but it does not need to be applied at individual member level).

Additional test for career average revalued earnings benefits

There is an additional test placed on career average revalued earnings benefits. It requires benefits in service to revalue by the lesser of the annual increase in CPI, RPI or 2.5%. For public service schemes with earnings linked in-service revaluation, the test is met so long as the earnings revaluation is at least in line with the rate specified in an HMT Order. Therefore, all public sector schemes will meet this test.

[1] Further details can be found at http://www.thepensionsregulator.gov.uk/docs/detailed-guidance-4.pdf

[2] Or DFP directions for public sector schemes in Northern Ireland.