**11/01/2022 - An Introduction to Auto Enrolment**

Auto enrolment is the process of automatically enrolling eligible employees into a pension scheme.

The government have been concerned for many years that employees have not been saving enough into their pension, meaning they may not have enough money to live on when they retire.

Auto enrolment is the process whereby employees meeting certain criteria are automatically enrolled into a pension scheme. The onus is on the employee to opt out if they wish to, therefore more employees are saving more for their retirement.

The legislation around auto enrolment can be quite complex, and the fines levied by The Pensions Regulator for not complying with the legislation can be very hefty. There are strict rules around deadlines for providing the information and making payment of contributions.

## 1. Auto enrolment – The Basics

- Introduced in 2012 – Start Date (Staging Date) based on number of employees.
- Larger employers first, rolling out to all employers between 2012 and 2017
- The Pensions Regulator issue Employers a letter informing employer of Staging Date
- Employers can 'postpone' the start date under certain circumstances
- Exemptions apply to certain employees and certain employers.
- 'Eligible' employees are enrolled – Aged 22 to State Pension Age, earning over £10,000 per year

## 2. Setting up an auto enrolment scheme

Firstly the employer needs to decide on a Pension provider, it is advised that employers engage with an Independent Financial Advisor to recommend the most suitable scheme.

- There are many pension providers to choose from, from the well established such as Aviva, Scottish Widows etc, to the relatively newer providers that set up as a result of the auto enrolment legislation. Examples of these are Now Pensions and Smart Pensions.
- Most of these providers charge a fee for administering the scheme.

## 3. Assessing employees / worker types

An assessment must be carried out for each employee, and one of the following categories of 'worker type' assigned:

1. ***Eligible Jobholders***
   Eligible jobholders are aged between 22 and state pension age, and earn more than £10,000 per year (for 2020-21 tax year).

2. ***Non-eligible jobholders***

Non-eligible jobholders are either:

Aged between 16 and 21 years old AND earn over £10,000 per year
OR
Aged 16 to 74 AND earn between £6,240 and £10,000 per year

3. ***Entitled Workers***

   Aged between 16 and 74 years old
   AND
   Earn up to £6,240 per year

Eligible Jobholders must be enrolled (unless subject to exemption). All employees must be notified by letter which category of worker they have been assessed as, and what their options are regarding joining / opting out of the scheme.

The letter must contain certain minimum information, and an audit trail or log must be kept of when the employees were given the letters, in case of an inspection by The Pensions Regulator.

## 4. Contribution Rates and Pensionable earnings

When auto enrolment first started, the minimum rates were initially set very, to encourage employees to start saving small amounts (1% for the employee and 1% for the employer).

The current rates effective from April 2019 are:

| Employee Minimum contribution | Employer Minimum Contribution | Total Minimum Contribution |
|---|---|---|
| 5% | 3% | 8% |

When calculating the pension contributions, the employers can specify the level of earnings that pension contributions are calculated on (subject to scheme rules). The minimum basis the employer must use is on a band of earnings called 'Qualifying Earnings'.

## 5. Effects of Tax relief

Tax relief is given to employee's pension contributions at the employee's marginal rate of tax.

There are two ways of applying tax relief, depending on the pension provider and the scheme rules.

- **Tax relief at source**
- **Net pay arrangement**

## 6. Opting out and Re-enrolment

**Opting Out**

Once an employee has been enrolled and after a minimum of one contribution has been deducted, they may opt out of the scheme within a certain time period (usually one month).

**Re-enrolment**

The assessment process is ongoing and employees who were originally not eligible, may become eligible when next assessed, therefore will need to be enrolled.

Additionally, there is a 3 yearly re-enrolment process, where all employees are re-assessed, and may need to be re-enrolled.

## 7. Further Information

The governing body for pensions is The Pension Regulator, detailed auto enrolment legislation can be found here:

Workplace pensions law - auto enrolment | The Pensions Regulator

Further information for both employees and employers can be found on The Money and Pensions Service* – (Free independent advice):

The Money and Pensions Service | Building financial wellbeing

*(The Money and Pensions Service (MaPS) replaces the 3 existing providers of government-sponsored financial guidance – the Money Advice Service, the Pensions Advisory Service and Pension Wise)