Auto enrolment

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

1. The Problem and The Solution

Problem:

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.

Solution:

Auto enrolment!

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

2. Auto enrolment – The Basics

- Letter informing employer of Staging Date from The Pensions Regulator
- Employers can 'postpone' the start of the scheme for up to 3 months (and also postpone any new starters joining the scheme for up to 3 months)
- Exempt if employees already a member of a 'qualifying' pension scheme
- Other exemptions apply, eg businesses with only one Director and no employees
- 'Eligible' employees are enrolled – Age 22 to State Pension Age, earning over £10,000 per year
- Enrolled employees can only 'opt out' and get refund after first deduction has been taken
- Re-enrolment every 3 years

3. Setting up an auto enrolment scheme

Once an employer receives a letter from The Pensions Regulator informing the employer of their Staging date, they need decide on a Pension provider to use for their auto enrolment scheme. Some employers would engage with an Independent Financial Advisor to recommend the most suitable scheme. They will also need to speak to their payroll software provider, or if payroll is outsourced, to their payroll bureau, to find out what auto enrolment options are available, and any extra costs.

- There are many pension providers to choose from, from the well-established such as Aviva, Scottish Widows etc, to the relatively new 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.
- The government has set up a free, basic provider called NEST (National Employment Savings Trust).

4. Assessing and enrolling employees / worker types

Worker Types:

There are three categories of worker:

Category	**Age**	**Earnings (2021-22)**	**Action**
Eligible Jobholder	22 to SPA	Over £10,000	Must be enrolled
Non-eligible jobholder	16 to 21 OR	Over £10,000	Do not have to enrol, but must enrol them and contribute if they want to opt in
	16 to 74	Between £6,240 and £10,000	
Entitled workers	16 to 74	Up to £6,240	Must enrol them in pension if they want to opt in, but you do not have to contribute into their pension

There is a legal requirement to inform employees by letter of their status when first assessed, and when their status changes.

If an employee is enrolled, then their earnings drop below the £10,000, threshold, they stay enrolled until they opt out / leave or retire.

5. Contribution Rates

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

Current rates are as follows:

Effective Date	Employee Minimum contribution	Employer Minimum Contribution	Total Minimum Contribution
From 06/04/2019 onwards	5%	3%	8%

Note – an employer can choose to pay the total minimum contribution, without deducting the employee's share. As long as the minimum (which is currently 8%) is being put into the scheme.

The employee or the employer can choose to pay more than the minimum rate.

6. 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.

- **Tax relief at source**

  Employee deduction is reduced by 20%, and pension deduction is made from net pay. For example, if the employee contribution is £10, only £8 will be deducted from the employee, and the remaining £2 will be claimed from the government by the pension scheme provider, ensuring that the full £10 is credited to the employee's pension fund.

  If the employee pays tax at a higher rate, they can claim the additional tax relief direct from HMRC.

- **Net pay arrangement**

  Pension contributions are taken from earnings before tax is deducted. Tax is calculated on the lower amount; therefore the employee pays less tax.

7. Opting out & 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). As long as they meet the opting out criteria, the contribution will be refunded to them. If they do not opt out within the specified time, they may stop their contributions, but they cannot have their contributions refunded. They must leave the funds in their pension until they either transfer them to another scheme (for example if they move to another employer) or they retire.

Re-enrolment

The assessment process is ongoing and some employees, although not eligible when the first assessment is done, may reach a trigger e.g., age or earnings, in which case they will be enrolled. In addition to this, there is a 3 yearly re-enrolment process, where all employees are re-assessed, and any classed as eligible will be re-enrolled, even though they may have opted out in the past. The onus is then on the employee to opt out again (for a further 3 years!)