

R04 2020/2021 Auto-enrolment

Auto-enrolment is the government's main policy in trying to ensure that the majority of working individuals are saving for their later life.

The milestones are to understand:

- The obligations on an employer.
- The different categories of employees
- The minimum contributions that must be made by employer and employee

Employer obligations

Under the legislation:

- All employers, even if they have only one employee must offer a qualifying pension arrangement.
- Employees who meet the qualifying criteria must be auto enrolled in the scheme
- The employer must pay in minimum contributions to this arrangement.

Employees have the right to opt-out at any time once they have been auto enrolled but the employer must not offer any encouragement to an employee to do this. If an employee opts out, they must be auto enrolled in three years time.

A qualifying scheme must have no barriers to joining so there cannot be an application form and there must be a default investment fund

Categories of employees

An employer must classify its employees into three groups:

- Eligible Jobholders
- Non eligible jobholders
- Entitled Workers

Eligible jobholders must be auto enrolled. They are employees who:

- Are aged between 22 and State Pension Age (SPA)
- Work in the UK
- Earn above £10,000 a year

Non-eligible jobholders don't need to be auto enrolled but they have a right to opt in. If they do the employer must pay in the minimum contributions. These are employees who aren't

classed as eligible jobholders because they don't meet either the age or income requirement. Therefore they are either:

- Aged between 16 and 21 or between SPA and 74
- Earn above £10,000

OR

- Are aged between 16 and 74
- Earning between £6,240 and £10,000

An Entitled worker has the right to join the scheme but if they do the employer does not need to make a contribution.

They are:

- Aged between 16 and 74
- Earning below £6,240

The above figure show the annual amounts but in practice these work on a pay period basis.

For an employee who is paid monthly, the earnings figure is £833 a month. For a weekly paid employee the figure is £192

Contribution levels

The employer can make contributions based on an employee's qualifying earnings. For 2020/2019 this is total income between £6,240 and £50,000 a year (£520 and £4,167 a month or £120 and £962 a week)

The total contribution must be at least 8% of qualifying earnings. The employer must pay at least 3% with the employee paying 5%. This latter figure is a 4% contribution + 1% tax relief.

Alternatively the employer can base contributions on a certification basis and the employer can use one of three tiers.

| | Tier 1 | Tier 2 | Tier 3 |
|------------------------|-----------|--------------------------------|--------------|
| Definition of earnings | Basic Pay | At least 85% of total earnings | All earnings |
| Employer contribution | 4% | 3% | 3% |
| Employee contribution | 5% | 5% | 4% |
| Total | 9% | 8% | 7% |

The employer contributions are the minimum amounts. It can choose to increase these and reduce the employee contributions as long as the overall total is met.

That concludes this part so you should now understand:

- The obligations on an employer.
- The different categories of employees
- The minimum contributions that must be made by employer and employee