What is Auto Enrolment?

Auto Enrolment is a UK government initiative to help more people save for their retirement. Under the Pensions Act 2008, every employer in the UK must put certain staff into a workplace pension scheme and contribute towards it.

To be eligible for auto enrolment, an individual must meet the following criteria:

- work in the UK
- be not already in a suitable workplace pension scheme
- be at least 22 years old, but under State Pension age
- earn more than £10,000 a year for the tax year 2023/24.

If they meet this criteria, an employer must automatically enrol them into a pension scheme and make contributions to their pension. A small percentage of their wage will be paid into a pension scheme with extra money added on top by the employer. This is then used to build up a pension pot which can be used to pay an extra income on top of State Pension when an individual reaches pension age.

When an employer mentions auto enrolment, they must provide the option to 'opt out'. However, making the small investment each month could make a huge difference in later life.

More info: [Set up and manage a workplace pension scheme: Employers and eligible staff - GOV.UK (www.gov.uk)]

What you have to do as an employer?

As an employer what you must do includes:

- Providing a qualifying pension for its workers
- Automatically enrolling eligible employees, but informing them of the case and give them the option to opt-out
- Making sure the scheme is registered with the Pension Regulator
- Making sure any requests to opt-out are processed;
- Checking ongoing membership e.g. enrolling new starters and removing leavers;
- Re-enrolling eligible workers every three years if an eligible worker decides to opt-out. They must opt-out again every three years when re-enrolment takes place.

Your duties as an employer begin from the date your first worker starts work for you.

The term worker is often used rather than employee as this can include other categories of workers such as agency workers and contractors.

There can be three categories of workers:

- Workers aged over 22 and below state pension age earning over £10,000 are eligible members.

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- Workers earning between £6,240 and £10,000 can opt-in if they want and the employer must then make contributions
- Workers earning less than £6,240 can opt-in and make contributions themselves, but there is no obligation on an employer to contribute

More info: [Set up and manage a workplace pension scheme: Employers and eligible staff - GOV.UK (www.gov.uk)]
More info: [Set up and manage a workplace pension scheme: Manage your workplace pension scheme - GOV.UK (www.gov.uk)]

What contributions need to be made?

The minimum contributions on a worker's qualifying earnings are 3% employer and 5% worker. This is based on qualifying earnings from £6,240 to £50,270.

Qualifying earnings include:

- Salary and allowances
- Fluctuating amounts such as overtime, commission and bonuses
- Statutory payments such as sick pay, maternity pay or paternity pay.

There will be additional charges for an employer such as administration costs associated with managing opt-outs and the cost of financial advice for setting up the scheme.

More info: [Set up and manage a workplace pension scheme: How to set up a workplace pension scheme - GOV.UK (www.gov.uk)]

Penalties for not complying

The penalty for not complying can be harsh. If a statutory notice to comply is not followed, then an initial fine of £400 will be imposed followed by a daily fine based on the number of workers.
For example, an employer with 1- 4 workers will be fined £50 per day of non-compliance, for 5 - 49 workers it is £500 per day increasing on a rising scale up to £10,000 per day for employers with over 500 workers.

More info: [The Pensions Regulator | Automatic enrolment questions and answers | What fines can The Pensions Regulator (TPR) impose?]

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