Department for Work & Pensions

Review of the Automatic Enrolment Earnings Trigger and Qualifying Earnings Band for 2022/23: Supporting Analysis

February 2022

Contents

Background

Automatic enrolment obliges employers to enrol all workers into a qualifying workplace pension, provided that they ordinarily work in Great Britain and satisfy the age and earnings criteria. Enrolled employees and their employers must each pay at least the minimum contribution levels.

The automatic enrolment **earnings trigger** determines who is eligible to be automatically enrolled into a workplace pension by their employer in terms of how much they earn. There is also a qualifying earnings band in respect of which contributions are made – the band is defined by the **lower earnings limit** and the **upper earnings limit.** The earnings trigger and the qualifying earnings bands are often jointly referred to as the **Automatic Enrolment earnings thresholds**. They are set in legislation and reviewed annually. This report sets out the methodology, analysis and outcome of this year's review. It is a statutory requirement that the Secretary of State reviews all three thresholds in each tax year.

The lower earnings limit of the band is also relevant to defining who falls into the category of 'non-eligible job-holders'. People in this group can opt-in to their employer's workplace pension and will receive a mandatory employer contribution if they earn between the lower earnings limit and the earnings trigger.

Automatic enrolment was introduced gradually and is now in force for all employers and eligible workers. By the end of December 2021, over 10.6 million workers have been automatically enrolled and over 1.9 million employers have met their duties.[1]

[1] Latest "Automatic enrolment declaration of compliance" report can be found here www.thepensionsregulator.gov.uk/doc-library/research-analysis

Annual Review

Within the review of the automatic enrolment earnings trigger and qualifying earnings band for 2022/23 the Secretary of State has some flexibility in the level to which the amounts for the earnings trigger and qualifying earnings band are set. Section 14 of the Pensions Act 2008 also sets out certain factors which the Secretary of State may take into account in reviewing these amounts. [2] This statutory review will continue each year as the law requires. Whilst decisions are made for 2022/23 and the government can set out policy objectives and the principles that should inform the setting of the thresholds, it cannot pre-determine the approach for future years. This is in line with current legislation. This maintains the ability for the Secretary of State to exercise judgement on the appropriate levels to set the thresholds at each year, without being impeded by decisions that have been made previously. Furthermore, it allows the Secretary of State the flexibility that enables her to take current economic factors into consideration when deciding on the appropriate levels to set the thresholds.

The first two annual reviews established three principles to be used when reviewing the automatic enrolment thresholds. These principles were endorsed by stakeholders and the government's view is that they remain relevant:

a) **Will the right people be brought into pension saving?** In particular, at what level will the earnings trigger bring in as many people as possible who will benefit from saving? At what level does the trigger need to be set to avoid the automatic enrolment of those who are unlikely to benefit from saving? And what are the equality implications of the different options?

b) **What is the appropriate minimum level of saving for people who are automatically enrolled?** Everyone who is automatically enrolled should pay contributions on a meaningful portion of their income. To ensure this, we need to maintain an appropriate gap between the lower limit of the qualifying earnings

[2] '14(3) For the purposes of subsection (1) the Secretary of State may take into account any of the factors specified in subsection (4) (as well as any others that the Secretary of State thinks relevant).
(4) The factors are—
(a) the amounts for the time being specified in Chapter 2 of Part 3 (personal allowances) of the Income Tax Act 2007;
(b) the amounts for the time being specified in regulations under section 5 of the Social Security Contributions and Benefits Act 1992 (earnings limits and thresholds for Class 1 national insurance contributions);
(c) the amounts for the time being specified in section 44(4) of that Act (rate of basic state pension) and in regulations under section 3(1) of the Pensions Act 2014 (full rate of state pension);
(d) the general level of prices in Great Britain, and the general level of earnings there, estimated in such manner as the Secretary of State thinks fit.'
Pensions Act 2008: http://www.legislation.gov.uk/ukpga/2011/19/contents/enacted

band and the earnings trigger.

c) **Are the costs and benefits to individuals and employers appropriately balanced?** The cost implications of the thresholds remain relevant and we need to factor in the continuing importance of simplicity of administering AE.

The Secretary of State has considered each of the above principles alongside an assessment of the relevance of the review factors set out in the Pensions Act 2008 in reaching a conclusion on the level at which to set each threshold for 2022/23.

Results of This Year's Review

Earnings Trigger

The earnings trigger is one of the three key factors which ultimately governs who gets enrolled into a workplace pension scheme through automatic enrolment. The Government's view remains that if the trigger is too high, then low to moderate earners who can afford to save (and who are the main target group of the policy), may miss out on the benefits of a workplace pension. Set it too low, however, and the predominant impact will be upon people for whom it could make little economic sense to save into a pension and thereby divert income away from their day to day needs.

The Secretary of State has considered the latest analytical evidence and the policy objectives and has concluded that the existing threshold of **£10,000** remains the correct level and will not change for 2022/23. This represents a real terms decrease[3] in the value of the trigger. Therefore, as earnings continue to grow, keeping the earnings trigger at £10,000 will bring in an additional 17,000 savers into pension savings when compared to increasing the trigger in line with average wage growth.

The decision reflects the key balance that needs to be struck between affordability for employers and individuals and the policy objective of giving those who are most able to save the opportunity to accrue a meaningful level of savings with which to use for their retirement. It also reflects the need for stability at this point in the light of the challenging economic circumstances arising from the Covid-19 pandemic and whilst we continue to learn from the increases in minimum contribution rates in April 2018 and April 2019. It provides consistency of messaging for both employers and jobholders.

The Secretary of State has also assessed the equality impacts associated with this decision which are detailed later in this report. The Secretary of State remains of the view that voluntary opt-in provides the most appropriate option for those earning less than the earnings trigger who wish to save.

The Secretary of State has accounted for the impact of both the National Minimum wage and the National Living Wage when considering what the earnings trigger should be and continues to monitor the impact of this on low earnings and the automatic enrolment earnings trigger.

[3] For average earnings in 2021/22 this is the equivalent of setting the threshold below £10,000. This is because average earnings in 2022/23 are expected to be higher than in 2021/22.

Qualifying Earnings Band - Lower Limit

Automatic enrolment into a workplace pension with an employer contribution in addition to that of an individual is intended to build on the foundation of state pension entitlement. The lower limit of the qualifying earnings band sets the minimum amount that people must earn before their employer must start to calculate their pension contributions and include the minimum employer contributions. It therefore determines the minimum lower level of an enrolled workers' earnings on which they and their employer have to pay contributions.

The Secretary of State has considered all review factors against the analytical evidence and has decided to freeze the lower earnings limit at the 2021/22 level. Therefore, the value of the lower limit of the qualifying earnings band for 2022/23 will continue to be set at **£6,240**.

Previous reviews have aligned the AE qualifying earnings band with those of the National Insurance Contribution thresholds. This was primarily for simplicity purposes during roll out and implementation of AE, however, under the Pensions Act 2008 these thresholds must be reviewed each year and revised if appropriate. The reviews must be discrete annual considerations; this means the rates or an approach to future years cannot be pre-determined. The decision to freeze the AE lower earnings limit this year supports the principle of ensuring that everyone who is automatically enrolled would continue to pay contributions on a meaningful proportion of their income. It is consistent with the government's ambitions to improve financial resilience for retirement, in particular among low and moderate earners. Freezing the LEL helps ensure pensions savings would be broadly maintained – and slightly increased – compared to last year.

The 2017 Review of Automatic Enrolment set the ambition to remove of the lower earnings limit in the mid-2020s. The 2017 Review report was clear that implementation will be subject to learning from the workplace pension contribution increases in 2018 and 2019, discussions with employers and other stakeholders on the right implementation approach, and finding ways to make these changes affordable. As with other areas of public policy, we will pay close attention to the impact and costs of making changes and consider the optimal approach on implementation. This will account for the economic conditions, whilst continuing to support long-term saving, balancing the needs of savers, employers and tax-payers.

We will work to maintain the consensus that has underpinned AE's success, including giving employers and savers time to plan for future changes. In that way, we can help to minimise any risk of deterring individuals from continuing to save or undermining employer engagement. This longer term policy direction does not pre-empt any future annual thresholds review, pending the introduction of legislation which would need to be enacted to remove the lower earnings limit of the qualifying earnings band.[4]

Qualifying Earnings Band – Upper Limit

The upper limit of the qualifying earnings band caps mandatory employer contributions. It aims to distinguish the automatic enrolment target group of low to moderate earners and the statutory minimum contributions from earners in a higher tax band who might reasonably be expected to have access to a scheme that offers more than the minimum and are more likely to make personal arrangements for additional saving. The Secretary of State has concluded that mandatory employer contributions should remain capped and the 2022/23 value of **£50,270** is the factor that should determine the upper limit of the qualifying earnings band for automatic enrolment. For the year 2022/23, the National Insurance Contributions Upper Earnings Limit has also been frozen at the 2021/22 level, as outlined in the 2021 Autumn Budget.

[4] https://www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum

Proposed Thresholds for 2022/23

The current (2021/22) and proposed (2022/23) automatic enrolment thresholds are displayed in Table 1.

Table 1 – Current and proposed automatic enrolment thresholds

	Trigger	Lower limit qualifying earnings band	Upper limit qualifying earnings band
Current (2021/22)	£10,000	£6,240	£50,270
Proposed (2022/23)	£10,000	£6,240	£50,270

For comparison, Table 1a shows the National Insurance Contributions Lower Earnings Limit and Upper Earnings Limit in 2021/22 and 2022/23.

Table 1a – Current and proposed National Insurance Contributions LEL and UEL

		Lower Earnings Limit	Upper Earnings Limit
2021/22		£6,240	£50,270
2022/23		£6,396	£50,270

Methodology

This section describes the methodology used to estimate the impact of proposed changes to the automatic enrolment thresholds. Impacts are calculated by comparing a modelled baseline scenario of thresholds in 2022/23 to alternative threshold scenarios. These alternative scenarios are based on a range of options for how the 2021/22 thresholds could be changed in line with Section 14 of the Pension Act 2008.

The **baseline thresholds** for 2022/23 are the 2021/22 thresholds uprated in line with forecast earnings growth. This effectively holds the thresholds constant in real terms earnings. For this purpose we used the Office for Budgetary Responsibility's (OBR) October 2021 forecast for earnings growth of 3.30 per cent between quarter 4 2020 and quarter 4 2021.[5]

Broadly, we model **three different types of options for each threshold** for comparison against the baseline. They are:

1. Freezing the thresholds at their 2021/22 level;
2. Setting the thresholds in line with relevant 2022/23 National Insurance or tax thresholds;
3. Uprating the 2021/22 thresholds by a relevant index (e.g. earnings, CPI etc.)

In the model**, total, individual and employer pension contributions** in each scenario are estimated for the 2022/23 tax year using:

- Data from the 2020 Annual Survey of Hours and Earnings[6] on private sector employees' earnings and current levels of pension participation and contributions.
- Estimates from 2020 ASHE data of the bands of earnings on which individuals are making pension contributions. We account for evidence showing that some employers and employees contribute on earnings below the LEL and/or above the UEL.
- OBR forecasts of earnings growth and changes to the size of the workforce between 2020 and 2022.
- Modelled impacts on eligible workers saving into a workplace pension (given known participation rates) using ASHE data as a result of making changes to the earnings trigger.

[5] OBR Economic and Fiscal Outlook October 2021
Economic and fiscal outlook - October 2021 - Office for Budget Responsibility (obr.uk)
[6] For more details on ASHE methodology, see the Office for National Statistics documents here: www.ons.gov.uk/ons/taxonomy/index.html?nscl=Annual+Earnings

- Contribution rates for employers and employees, where the minimum for a qualifying pension scheme in 2022/23 is 8 per cent total contributions (including tax relief) on relevant earnings, of which at least 3 per cent is from the employer.

These figures then inform estimates of:

- **Income tax relief.** Individuals receive tax relief on their pension contributions. It is estimated by multiplying total pensions contributions from individuals by the appropriate income tax rates.[7]

- **Employer tax relief**. Because some employers have indicated that they have responded to increases in the cost of employer pension contributions by reducing wages and/or profits, it follows that they will have paid less employer National Insurance contributions and/or corporation tax due to these increased contributions than otherwise. We estimate both of these effects by multiplying the overall size of employer pension contributions by:
    - the percentage of employers who indicated that they behaved in that way in the Employer' Pension Provision 2019 survey[8], and
    - the appropriate tax rate, either employer NICs or corporation tax.

Finally, estimates of the **equalities impacts** of different thresholds are produced using 2020 ASHE data and the 2020/21[9] Labour Force Survey (LFS). ASHE is used to analyse the proportion of additional/fewer participants and contributions for each option by **gender** and **age**. The LFS was used to analyse the impact of earnings threshold changes by **disability status** and **ethnicity**. The LFS is used for these characteristics as ASHE does not include this data. The LFS does not include data on pension contributions, so the equalities assessment by disability status and ethnicity is limited to an analysis of individuals brought newly above or below the earnings trigger by changes to this threshold relative to earnings. This is a proxy measure of the impact on participation by these characteristics, which may be less accurate if the participation rates of low earnings with disabilities or from minority ethnic groups differ significantly from the participation rates of other low earners.

The breakdowns of these demographics are presented in Annex A.

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[7] This calculation assumes a proportion of low earners saving through Relief at Source pension schemes consistent with figures given in the HM Treasury Call for Evidence on pensions tax administration https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence

[8] Using Employers' Pension Provision 2019 Survey

[9] The data sets: April – June 2020, July – September 2020, October – December 2020 and January – March 2021 were combined to represent 2020/21.

Sources of uncertainty

There are a number of sources of uncertainty in the analysis, some of which are greater than in previous years, such as factors arising due to the Covid-19 pandemic. The main sources of uncertainty are:

- The approximation of real-world changes by modelling techniques.
- Statistical sampling uncertainty arising from the use of survey data. This uncertainty is greater when sample sizes are smaller. This means for example that the equalities impact assessments are more uncertain for changes to the thresholds which affect fewer individuals.
- The accuracy of economic forecasts used in the model. There is a higher than usual level of uncertainty in these forecasts this year due to Covid-19 and the UK leaving the EU.
- The validity of behavioural assumptions. This uncertainty may be greater this year if past data on the impact of automatic enrolment on individuals' pensions savings behaviour is a poor indicator of their behaviour in response to policy changes made during the Covid-19 pandemic. We review the behavioural assumptions in our modelling against available data on a regular basis. To date, data has continued to indicate that pension saving behaviour prior to the pandemic remained a good indicator for pension saving behaviour during it.

Results

A – Trends in Pension Saving

In April 2019 the minimum contributions for a qualifying pension scheme rose to 8% (on a band of earnings). There have been no further increases to the minimum contribution rates since then, so the increase in the estimate of contribution costs this year relative to the previous year is driven by earnings growth. Table 2 compares estimated pension contributions from the 2021/22 thresholds and under the baseline thresholds in 2022/23, and shows a £4.5 billion increase in pension saving.

The recommended thresholds for the 2021/22 automatic enrolment threshold review were to freeze the trigger at £10,000 whilst aligning the LEL and UEL with the National Insurance Lower and Upper Earnings Limits at £6,240 and £50,270 respectively. To calculate the 2022/23 baseline thresholds, we uprate the 2021/22 thresholds with OBR forecasts of earnings growth of 3.30%.

Table 2 - Increase in total pension contributions from private sector employers, individuals and initial impacts on income tax relief. 2021/22 and 2022/23 (£ million)

	Employer Contributions	Employee Contributions	Income Tax Relief	Total Contributions	Employer Tax Relief
Thresholds - Level of Pension Saving in 2021/22 (£10,000; £6,240; £50,270)	£37,900m	£19,300m	£7,400m	**£64,600m**	£2,700m
Baseline Thresholds - Level of Pension Saving in 2022/23 (£10,330; £6,446; £51,928)	£41,000m	£20,000m	£8,100m	**£69,100m**	£3,000m
Difference	+£3,100m	+£700m	+£700m	**+£4,500m**	+£200m

Source: DWP Modelling

Notes:

1. To estimate the baseline level of pension saving in 2022/23, the 2021/22 thresholds are uprated in line with earnings growth as forecast in the OBR estimates as of October 2021 (3.30% earnings growth from quarter 4 2020 to quarter 4 2021), and employee earnings are increased by a combination of OBR forecasts and National Minimum Wage/National Living Wage increases.
2. Amounts saved are rounded to the nearest £100m. Figures may not sum due to rounding.
3. Total contributions are the sum of employer contributions, employee contributions, and income tax relief on the employee's contribution.

B - Impact of Proposed Thresholds for 2022/23

The proposed thresholds for 2022/23 are:

(i) retaining the 2021/22 automatic enrolment earnings trigger (£10,000),
(ii) retaining the 2021/22 LEL (£6,240), and
(iii) retaining the 2021/22 UEL (£50,270).

This proposal differs slightly to the approach taken in previous years, including 2021/22. In previous years the earnings trigger has been kept at £10,000 but both the LEL and UEL have been aligned to the National Insurance lower and upper earnings limits.

Table 3 compares the impact of the baseline to the proposed thresholds on employers, employees, and government. The approach taken in previous years has also been considered in Table 3. However, the impact of taking this approach would have moved the LEL further away from the recommendations outlined in the 2017 Review of Automatic Enrolment. Furthermore, it would have reduced pension contributions of low earners compared to the proposed option.

The decision to freeze the LEL is to ensure that the policy does not move further away from the proposal to abolish the LEL, as outlined in the 2017 Review of Automatic Enrolment. Furthermore, keeping the LEL held at its 2021/22 rates allows for more contributions from low earners, with more net additional contributions coming from women than men. A detailed description on protected groups including women can be found in Annex A – Equalities Impact on Affected Groups.

The National Insurance Upper Earnings Limit for the year 2022/23 has been held at the 2021/22 level. This decision was announced in the Chancellor of the Exchequer's Autumn Budget 2021. Therefore, retaining the 2021/22 UEL is the same as aligning the UEL with the National Insurance Upper Earnings Limit. The decision to maintain the UEL at the 2021/22 rates helps to control costs for all parties, including employers.

Under the proposed thresholds, the overall level of pension contributions is estimated to be £69,100 million in 2022/23, rounded to the nearest £100m. The proposed thresholds lead to contributions that are £26 million higher than the baseline thresholds at 2022/23 levels in equivalent earnings terms. This increase consists of £8 million in employer contributions and £18 million in employee contributions.

Table 3 – Estimated impacts of changes to the earnings trigger and upper and lower limits of the qualifying earnings band on contributions from private sector employers, employees and tax-relief (in 2022/23)

Earnings Trigger	Qualifying Earnings Band Lower Limit	Qualifying Earnings Band Upper Limit		Participants	Employer Contributions	Employee Contributions	Income Tax Relief	Total Contributions	Employer Tax Relief
£10,330	£6,446	£51,928	**Baseline** (2021/22 thresholds in 2022/23 earnings terms)	15,220,000	£41,000m	£20,000m	£8,100m	**£69,100m**	£3,000m
£10,000	£6,240	£50,270	**Proposed** 2022/23	+17,000	+£8m	+£18m	-£1m	**+£26m**	+£1m
£10,000	£6,396	£50,270	**NICs aligned thresholds 2022/23**	+17,000	-£7m	+£3m	-£5m	**-£8m**	-

Source: DWP Modelling

Notes:

1. Scenarios after the baseline present the change in costs when compared to the baseline.
2. Number of participants are rounded to the nearest 100,000 and the nearest 1,000 for the difference from baseline. Amounts saved are rounded to the nearest £100m for the baseline and the nearest £m for differences to baseline, with amounts between +/- £0.5m replaced by dashes. Figures may not sum due to rounding.
3. The baseline scenario is that all thresholds rise in line with earnings growth as forecast in the OBR estimates as of October 2021 (3.30% earnings growth from quarter 4 2020 to quarter 4 2021).
4. To estimate tax relief, we make assumptions on the proportion of low earners saving through Relief at Source pension schemes consistent with figures used in the HM Treasury Call for Evidence on pensions tax relief administration. https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence

C - Impact of Changing the Earnings Trigger in 2022/23

Table 4 shows the impact on employers, individuals, and government associated with the various options for the value of the earnings trigger in 2022/23. These are isolated effects – both the LEL and UEL remain unchanged compared to the baseline.

Freezing the threshold at £10,000 increases the number of individuals saving into a workplace pension by approximately 17,000. Pension participation increases because earnings growth brings some individuals' pay above the £10,000 trigger in 2022/23. This will increase total contributions by an estimated £17m.

The estimated impact of freezing the trigger for 2022/23 compares to the estimate in the 2021/22 Thresholds Review that freezing the trigger that year would increase participation by around 8,000. There are also additional sources of uncertainty to the figures this year such as the Covid-19 pandemic, as discussed in the Methodology section.

Lowering the earnings trigger would increase pension participation among lower earners. For example, aligning the earnings trigger with the NI Lower Earnings Limit would increase pension participants by 214,000 people, increasing total contributions by £124m.

Conversely, raising the earnings trigger would decrease pension participation. For example, aligning the earnings trigger with the Personal Income Tax Allowance (£12,570) would decrease the number of savers into a workplace pension by an estimated 119,000 people, reducing total pension saving by £111m.

The main section of this publication lays out the reasons behind the Secretary of State's decision to freeze the earnings trigger at £10,000 for 2022/23 in order to bring as many people into automatic enrolment as possible who will benefit from saving, while avoiding the automatic enrolment of those unlikely to benefit.

The government recognises the different impacts of the two systems of paying pension tax relief on pension contributions for workers earning below the personal allowance. The Government conducted a Call for Evidence[10] on pensions tax relief administration and responded to this in the Autumn 2021 Budget. The response states that a system to make top-up payments will be introduced directly to workers

[10] Pensions tax relief administration: call for evidence - GOV.UK (www.gov.uk)

earning below the personal allowance saving into pension schemes using a net pay arrangement from 2024/25 onwards.

The Pensions Regulator (TPR) provides guidance to employers on choosing a pension scheme for their staff in order to discharge their statutory obligations under automatic enrolment. This guidance covers the choice between net pay and at source schemes, and the implications for employees who do not pay income tax. More information can be found here on the TPR website[11].

[11] https://www.thepensionsregulator.gov.uk/en/employers/new-employers/im-an-employer-who-has-to-provide-a-pension/choose-a-pension-scheme/what-to-look-for-in-a-pension-scheme

Table 4 - Estimates of the direct impact of changing the earnings trigger on contributions from private sector employers, employees and tax relief (in 2022/23)

Earnings Trigger	Rationale	Participants	Employer Contributions	Employee Contributions	Income Tax Relief	Total Contributions	Employer Tax Relief
£10,330 (Baseline)	Current Trigger (2021/22) uprated by earnings	15,200,000	£41,000m	£20,000m	£8,100m	**£69,100m**	£3,000m
£6,396	NI Lower Earnings Limit (2022/23)	+214,000	+£44m	+£72m	+£8m	**+£124m**	+£3m
£9,880	NI Primary Threshold (2022/23)	+ 26,000	+£8m	+£13m	+£1m	**+£22m**	+£1m
£10,000	Freeze 2021/22 trigger	+ 17,000	+£6m	+£10m	+£1m	**+£17m**	-
£10,396	Uprate by estimated price inflation (CPI)	- 2,000	-£1m	-£1m	-	**-£2m**	-
£12,570[8]	Income Tax Personal Allowance (22/23)	- 119,000	-£62m	-£44m	-£4m	**-£111m**	-£4m

Source: DWP Modelling

Notes:

1. Scenarios after the baseline present the change in costs when compared to the baseline.
2. Number of participants are rounded to the nearest 100,000 and the nearest 1,000 for the difference from baseline. Amounts saved are rounded to the nearest £100m for the baseline and the nearest £m for differences to baseline, with amounts between +/- £0.5m replaced by dashes. Figures may not sum due to rounding
3. The OBR's October 2021 forecast for earnings growth between 2020 Q4 and 2021 Q4 of 3.30 per cent was used.
4. The OBR's October 2021 forecast for CPI between 2020 Q4 and 2021 Q4 of 3.96 per cent was used.
5. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
6. Employer tax relief represents the tax no longer paid by employers who respond to the additional pension contribution costs of the workplace pension reforms by reducing profits or wages paid to their employees.
7. To estimate tax relief, we make assumptions on the proportion of low earners saving through Relief at Source pension schemes consistent with figures used in the HM Treasury Call for Evidence on pensions tax relief administration. https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence
8. £12,570 is the HMRC personal allowance rate for 2022/23 which was published following the announcements of the Autumn 2021 Budget. Annex A: rates and allowances - GOV.UK (www.gov.uk)

D – Impact of Changing the Lower Limit of the Qualifying Earnings Band in 2022/23

Table 5 shows the impact on employers, employees and government associated with the baseline thresholds and various options considered for the value of the 2022/23 qualifying earnings band lower limit. As before, these are the impacts of isolated LEL changes. Unlike the earnings trigger, changing the LEL does not directly impact the number of people participating in a workplace pension.

Total pension saving increases as the LEL decreases (compared to the baseline), as pension contributions are paid on more of an individual’s income. Retaining the LEL at the 2021/22 rates represents a slight decrease against the baseline threshold, therefore results in an increase in total pension savings by around £44 million when compared to the baseline scenario.

Increasing the LEL would reduce total pension saving. For example, aligning the LEL with the 2022/23 NI Primary Threshold of £9,880 would reduce total pension saving by £727 million when compared to the baseline scenario. It would be inconsistent with the Government’s 2017 AE Review ambitions and disproportionately impact on low earning savers.

Table 5 - Estimates of the direct impact of changing the lower limit of the qualifying earnings band on contributions from private sector employers, employees and tax relief (in 2022/23)

Qualifying earnings band LEL	Rationale	Employer Contributions	Employee Contributions	Income Tax Relief	Total Contributions	Employer Tax Relief
£6,446 (Baseline)	Current LEL (2021/22) uprated by earnings inflation	£41,000m	£20,000m	£8,100m	**£69,100m**	£3,000m
£6,240	Freeze 2021/22 LEL	+£20m	+£20m	+£5m	**+£44m**	+£1m
£6,396	NI Lower Earnings Limit (2022/23)	+£5m	+£5m	+£1m	**+£11m**	-
£9,880	NI Primary Threshold (2022/23)	-£320m	-£321m	-£86m	**-£727m**	-£23m

Source: DWP Modelling

Notes:
1. Scenarios after the baseline present the change in contributions when compared to the baseline
2. Number of participants are rounded to the nearest 100,000 and the nearest 1,000 for the difference from baseline. Amounts saved are rounded to the nearest £100m for the baseline and the nearest £m for differences to baseline. Figures may not sum due to rounding.
3. The earnings trigger and UEL are held constant at their 2021/22 levels uprated in line with earnings growth, to isolate the impact of changes to the LEL.
4. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
5. Employer tax relief represents the tax no longer paid by employers who respond to the additional pension contribution requirements of the workplace pension reforms by reducing profits or wages paid to their employees.
6. To estimate tax relief, we make assumptions on the proportion of low earners saving through Relief at Source pension schemes consistent with figures used in the HM Treasury Call for Evidence on pensions tax relief administration. https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence

E – Impact of Changing the Upper Limit of the Qualifying Earnings Band in 2022/23

Table 6 shows the impact on employers, employees and government associated with the baseline upper earnings limit and various options considered for its value in 2022/23, where these changes are made in isolation.

Increasing the UEL increases total pension saving, specifically by those in high income employments, because it increases the amount of income on which employers and employees pay contributions. For employees who earn less than the UEL, which was £50,270 in 2021/22, freezing or increasing the UEL has no effect on their total pension savings. Like the LEL, changing the UEL does not affect pension participation.

Uprating the upper limit of the qualifying earnings band with CPI would increase total contributions by £7m compared to the baseline, which increases the UEL by average earnings growth. Freezing the UEL at the 2021/22 rate of £50,270 represents a decrease against the baseline threshold. This would decrease total contributions by approximately £36m against the baseline scenario. Of this, employers would approximately contribute £18m less while employees would contribute £11m less, with the rest coming from a reduction in income tax relief by the government.

Table 6 - Estimates of the direct impact of changing the upper limit of the qualifying earnings band on contributions from private sector employers, employees and tax relief (in 2022/23)

Qualifying earnings band UEL	Rationale	Employer Contributions	Employee Contributions	Income Tax Relief	Total Contributions	Employer Tax Relief
£51,928 (Baseline)	Current UEL (2021/22) uprated by earnings inflation	£41,000m	£20,000m	£8,100m	**£69,100m**	£3,000m
£52,261	Uprate by estimated price inflation (CPI)	+£3m	+£2m	+£1m	**+£7m**	-
£50,270	Freeze 2021/22 UEL	-£18m	-£11m	-£7m	**-£36m**	-£1m
£50,270	NI Upper Earnings Limit (2022/23)	-£18m	-£11m	-£7m	**-£36m**	-£1m

Source: DWP Modelling

Notes:

1. Scenarios after the baseline present the change in costs when compared to the baseline
2. Number of participants are rounded to the nearest 100,000 and the nearest 1,000 for the difference from baseline. Amounts saved are rounded to the nearest £100m for the baseline and the nearest £m for differences to baseline, with amounts between +/- £0.5m replaced by dashes. Figures may not sum due to rounding.
3. The earnings trigger and LEL are held constant at their 2021/22 levels uprated in line with earnings growth, to isolate the impact of changes to the UEL.
4. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
5. Employer tax relief represents the tax no longer paid by employers who respond to the additional pension contribution costs of the workplace pension reforms by reducing profits or wages paid to their employees.
6. To estimate tax relief, we make assumptions on the proportion of low earners saving through Relief at Source pension schemes consistent with figures used in the HM Treasury Call for Evidence on pensions tax relief administration. https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence

Annex A – Equalities Impacts on Affected Groups

Introduction

This section describes the estimated impact of the changes to the automatic enrolment earnings thresholds on the demographics of private sector pension savers.

The demographic breakdowns for the following characteristics are presented:

a) Women
b) Age
c) Those from Black, Asian and minority ethnic (BAME) backgrounds
d) Those with a disability

There is no available data to assess the impact of changes by other protected characteristics, for example marital status or religion.

Table 7 shows the estimated impact by gender and age on the pension participants from changes to the earnings trigger relative to baseline. The qualifying earnings bands do not impact participation and are therefore not included in this table. Table 8 shows the estimated impacts by gender and age on total contributions for all threshold changes listed in the Results section.

In table 7, the demographic impacts of every scenario after baseline are shown using the proportion of additional/fewer participants under that scenario belonging to each demographic group. For example, as a result of freezing the trigger at £10,000, pension participants increase by 17,000 and 69% of them are female. Similarly, table 8 shows what proportion of increased/decreased contributions under each scenario come from each demographic group.

Table 9 shows the estimated impact by ethnicity and disability. As these characteristics are not present in the data used in our main modelling, we use estimates of the characteristics of those whose eligibility for automatic enrolment changes due to changes in the earnings trigger as a proxy for the impact on participation. Impacts by contributions are not available. As the qualifying earnings bands do not affect eligibility, they are not included.

Women

Table 7 shows that approximately 43 per cent of participants under the baseline scenario are women. Women are under-represented in this group because they are less likely to work in the private sector, and because they are more likely to work part-time where pension participation is lower[12].

Freezing the trigger or reducing it further from the baseline would bring more women into workplace pension participation. Women are more likely to fall into lower earning employment compared to men[13]. Therefore, bringing in more participants who earn below £10,000 per annum will have a greater effect on women than men. For example, approximately 70% of new participants in pension saving as a result of reducing the earnings trigger to the LEL are women. Under the proposal to freeze the trigger, we similarly estimate that seven in ten new participants would be women.

As shown in table 8, we estimate 43% of the additional contributions from freezing the LEL to come from women. Only 25% of the decrease in contributions from maintaining the 2021/22 rate for the UEL would come from contributions made by women. This is because men make up a larger proportion of high earners affected by changes to the UEL. Overall, 92% of the additional contributions from the proposal to freeze all threshold changes come from women.

Table 8 shows the impact of a NICs aligned option, where the earnings trigger remains at £10,000 and the LEL and UEL continue to align with the 2022/23 National Insurance thresholds. This represents a reduction of the LEL compared to the baseline, which increases overall contributions, and a reduction of the UEL compared to the baseline, which reduces overall contributions.

In this NICs aligned option we estimate that men would lose more overall contributions compared to the baseline from aligning the UEL to the 2022/23 National Insurance thresholds than they would gain from aligning the LEL. As fewer women earn above the UEL this impact is reversed for women, who gain more overall contributions compared to the baseline from aligning the LEL to the 2022/23 National Insurance thresholds than they would lose from aligning the UEL. The net impact from men (a reduction in overall contributions) and women (an increase in overall contributions) combined is a very small overall reduction in total contributions.

The NICs aligned option leads to a £17m decrease in male contributions compared to the baseline, and a £9m increase in female contributions. The net change in contributions is a decrease of £8m. Therefore, as a proportion of this overall reduction in total contributions (-£8m), women's overall contributions make up -109% of that figure.

[12] See ONS statistics: Employee workplace pensions in the UK - Office for National Statistics
[13] See ONS statistics on income distributions: Earnings and hours worked, all employees: ASHE Table 1 - Office for National Statistics (ons.gov.uk)

Age

Approximately half of participants under the baseline scenario are people between the age of 30 and 49. This age group contributed more than half of the total contributions under the baseline threshold.

Under the proposal to freeze the trigger at £10,000, and other scenarios lowering the trigger relative to earnings, we estimate that the group of new participants would have proportionately fewer people aged under 30, and proportionately more people aged 50 and over, than the population of existing savers.

Of the estimated additional £26m total contributions from all proposed threshold changes together, one third comes from individuals aged under 30, which is around three times as much as the proportion of existing total contributions from this age group. This is in part due to the fact that only 10% of the reduction in contributions arising from maintaining the upper earnings limit link to National Insurance comes from this group.

We outlined in the section on Gender how for the NICs aligned option of aligning the LEL and UEL to the 2022/23 National Insurance thresholds resulted in an *increase* in overall contributions paid by women that was bigger than the overall *decrease* in total contributions for both men and women combined. Under the same NICs aligned option, an increase in total contributions of £2m for those aged under 30 is compared to an overall decrease in total contributions of £8m. Therefore, those aged under 30 make up -21% of overall reduction in total contributions.

Ethnicity

Table 9 shows that Black, Asian and minority ethnic people make up a slightly higher proportion of the population made newly eligible by lowering the trigger than they do of the existing eligible population. For example, we estimate that if the trigger was lowered to the level of the National Insurance lower earnings limit, 13% of the newly eligible individuals would be from these ethnic groups compared to 10% of the existing eligible population. Figures for the proposal to freeze the trigger are not available due to small sample sizes.

Disability

People with a disability make up 16% of the eligible population under the baseline scenario. Table 9 shows that they make up a higher proportion of those who would be made eligible by lowering the trigger. For example, we estimate that if the trigger was lowered to the level of the National Insurance lower earnings limit, 28% of the newly eligible individuals would have a disability. Figures for the proposal to freeze the trigger are not available due to small sample sizes.

Table 7 - Equalities impact of threshold changes on participants – age and gender

Scenario	Number	Percentage female	Percentage aged <30	Percentage aged 50+
	Participants			
Baseline saving in 2022	15,200,000	43%	19%	30%
Differences from baseline:				
Freeze all thresholds (£10,000; £6,240; £50,270)	+17,000	69%*	19%*	34%*
NICs aligned thresholds (£10,000; £6,396; £50,270)	+17,000	69%*	19%*	34%*
Freeze trigger only (£10,000)	+17,000	69%*	19%*	34%*
Increase trigger by CPI only (£10,396)	-2,000	..	..	..
Align trigger to NI Primary Threshold only (£9,880)	+26,000	70%	20%	36%
Align trigger to Personal Allowance only (£12,570)[6]	-119,000	74%	16%	37%
Align trigger to LEL only (£6,240)	+214,000	71%	17%	36%

Source: ASHE 2020 and DWP Modelling

Notes

1. The Number column shows the number of participants under baseline rounded to the nearest 100,000, and the change in participants as a result of changes to the thresholds rounded to the nearest 1,000.
2. Percentages show the percentage of participants under baseline from each demographic group, and the percentage of additional/fewer participants under changes to the baseline from each group, both rounded to the nearest percentage point.
3. The baseline saving scenario is that all thresholds rise in line with earnings growth as forecast in the OBR estimates as of October 2021 (3.30% earnings growth from quarter 4 2020 to quarter 4 2021). Scenarios except NICs aligned proposed thresholds keep thresholds not specified at baseline levels
4. The OBR's October 2021 forecast for CPI between 2020 Q4 and 2021 Q4 of 3.96 per cent was used.
5. Figures marked * carry a relatively high degree of uncertainty due to small sample sizes.
6. £12,570 is the HMRC personal allowance rate for 2022/23 which was published following the announcements of the Autumn 2021 Budget. Annex A: rates and allowances - GOV.UK (www.gov.uk)
7. Figures relating to the NICs aligned thresholds scenario is not included in this table as both this scenario and the proposal to freeze all thresholds set the earnings trigger to £10,000. The difference in the thresholds for the LEL and UEL do not make a difference on number of additional savers from the baseline, Since it is the earnings trigger that impacts the number of participants, both the NICs aligned threshold scenario and the proposal to freeze all thresholds has the same effect on the additional number of participants.

Table 8 - Equalities impact of threshold changes on total contributions – age and gender

Scenario	Amount	Contributions Percentage female	Percentage aged <30	Percentage aged 50+
Baseline saving in 2021	£69,100m	36%	11%	35%
Differences from baseline:				
Freeze all thresholds (£10,000; £6,240; £50,270)	+£26m	92%	33%	32%
NICs aligned thresholds (£10,000; £6,396; £50,270) *[see body text regarding female and <30 percentages]*	-£8m	-109% *(i.e. +£9m)*	-21% *(i.e. +£2m)*	25% *(i.e. -£2m)*
Freeze trigger only (£10,000)	+£17m	79%	19%	31%
Increase trigger by CPI only (£10,396)	-£2m	..	..	..
Align trigger to NI Primary Threshold only (£9,880)	+£22m	77%	19%	31%
Align trigger to Personal Allowance only (£12,570)[6]	-£111m	74%	11%	42%
Align trigger to LEL only (£6,396)	+£124m	77%	20%	30%
Align LEL to NI LEL only (£6,396)	+£11m	43%	20%	30%
Freeze LEL only (£6,240)	+£44m	43%	20%	30%
Align LEL to NI Primary Threshold only (£9,568)	-£727m	42%	20%	30%
Increase UEL by CPI only (£52,261)	+£7m	25%	10%	30%
Align UEL to NI UEL only (£50,270)	-£36m	25%	10%	29%
Freeze UEL only (£50,270)	-£36m	25%	10%	29%

Source: ASHE 2020 and DWP Modelling

Notes

1. The Amount column shows the amount of total contributions under baseline rounded to the nearest £100m, and the change in total contributions as a result of changes to the thresholds rounded to the nearest £m.
2. Percentages show what percentage of total contributions under baseline comes from each demographic group, and what percentage of additional/reduced contributions under changes to the thresholds comes from each group, both rounded to the nearest percentage point.
3. The baseline saving scenario is that all thresholds rise in line with earnings growth as forecast in the OBR estimates as of October 2021 (3.30% earnings growth from quarter 4 2020 to quarter 4 2021). Scenarios except NICs aligned proposed thresholds keep thresholds not specified at baseline levels.
4. The OBR's October 2021 forecast for CPI between 2020Q4 and 2021Q4 of 3.96 per cent was used.
5. Figures marked * carry a relatively high degree of uncertainty due to small sample sizes.
6. £12,570 is the HMRC personal allowance rate for 2022/23 which was published following the announcements of the Autumn 2021 Budget. Annex A: rates and allowances - GOV.UK (www.gov.uk)

Table 9 - Equalities impact of earnings trigger changes – ethnicity and disability

Scenario	Participants[1]	Eligible Employees[2] Percentage BAME	Percentage with disability
Baseline saving in 2021	15,200,000	10%	16%
Differences from baseline:			
Freeze trigger (£10,000)	+17,000	..	..
Increase trigger by CPI (£10,396)	-2,000	..	..
Align trigger to NI Primary Threshold (£9,880)	+26,000	..	..
Align trigger to Personal Allowance (£12,570)[7]	-119,000	11%*	26%
Align trigger to LEL (£6,240)	+214,000	13%*	86%

Source: ASHE 2020, LFS 2020/21 and DWP Modelling

Notes

1. The Participants column shows the number of participants under baseline rounded to the nearest 100,000, and the difference from baseline as a result of changes to the thresholds rounded to the nearest 1,000. These figures are estimated from ASHE 2020 and DWP modelling.
2. Information on ethnicity and disability is not present in the ASHE data used to estimate changes to participation. The proxy measure used instead is the impact on eligible employees using LFS data. See the Methodology section of this document. Percentages show the percentage of eligible employees under baseline from each demographic group, and the percentage of additional/fewer eligible employees under changes to the baseline from each group, both rounded to the nearest percentage point.
3. The baseline saving scenario is that all thresholds rise in line with earnings growth as forecast in the OBR estimates as of October 2021 (3.30% earnings growth from quarter 4 2020 to quarter 4 2021).
4. The OBR's October 2021 forecast for CPI between 2020Q4 and 2021Q4 of 3.96 per cent was used.
5. Demographic breakdowns for the freeze trigger, increase trigger by CPI and align trigger to NI Primary Threshold scenarios are not available due to very small sample sizes.
6. Figures marked * carry a relatively high degree of uncertainty due to small sample sizes.
7. £12,570 is the HMRC personal allowance rate for 2022/23 which was published following the announcements of the Autumn 2021 Budget. [Annex A: rates and allowances - GOV.UK (www.gov.uk)]

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