Automatic enrolment earnings thresholds review and revision 2012 / 2013

Consultation on revision proposals for the automatic enrolment earnings trigger and the qualifying earnings band

December 2011

DWP Department for Work and Pensions

Contents

Consultation arrangements

This consultation is aimed at employers, employee representatives and pension industry professionals, including scheme administrators, payroll administrators, accountants, payroll bureaux, Independent Financial Advisors and employee benefit consultants. Comments from workers and the general public are also welcome.

The document sets out our approach and broad proposals for the first annual revision of the automatic enrolment earnings trigger and the lower and upper limits of the qualifying earnings band. The revised figures will apply for the 2012/13 tax year and will be set by Affirmative Order.

The revision Order will have a direct impact on who is automatically enrolled and how much they and their employers pay in contributions.

The document sets out the Government's initial assessment of each of the potentially relevant revision factors for the trigger and the qualifying earnings band respectively.

We invite contributions to inform how we take this review and revision forward for the first year of live running of automatic enrolment. The Government will consider on an annual basis whether it is appropriate to carry out consultations on the proposed thresholds for future years.

This consultation applies to England, Wales and Scotland. It is anticipated that Northern Ireland will make a corresponding Order.

Duration of the consultation

The consultation period begins on 15 December 2011 and runs until **26 January 2012**.

This document is available on the Department's website at:

http://www.dwp.gov.uk/consultations/2011/auto-enrolment-revaluation.shtml

Please send your response, preferably by email to:

workplacepensionreform.consultation@dwp.gsi.gov.uk

Or by post to:

Jane Stewart
Department for Work and Pensions
Enabling Retirement Savings Programme
7th Floor
Caxton House
London SW1H 9NA

Please ensure your response reaches us by **26 January 2012**

When responding, please state whether you are doing so as an individual or representing the views of an organisation. If you are responding on behalf of a larger organisation, please make it clear who the organisation represents and, where applicable, how the views of members were assembled.

Any queries about the subject matter of this consultation should be addressed to Jane Stewart at jane.stewart4@dwp.gsi.gov.uk.

We have sent this consultation document to those people and organisations who have already expressed interest in this work. Please do share this document with, or tell us about, anyone you think will want to be involved in this consultation.

Freedom of information

The information you send us may need to be passed to colleagues within the Department for Work and Pensions, published in a summary of responses received and referred to in the published consultation report.

All information contained in your response, including personal information, may be subject to publication or disclosure if requested under the Freedom of Information Act 2000. By providing personal information for the purpose of the public consultation exercise, it is understood that you consent to its disclosure and publication. If this is not the case, you should limit any personal information which is provided, or remove it completely. If you want the information in your response to the consultation to be kept confidential, you should explain why as part of your response, although we cannot guarantee to do this. We cannot guarantee confidentiality of electronic responses even if your IT system claims it automatically. If you want to find out more about the general principles of Freedom of Information and how it is applied within DWP, please contact:

Central Freedom of Information Team
Department for Work and Pensions,
The Adelphi
1-11 John Adam Street
London
WC2N 6HT

Email: freedom-of-information-request@dwp.gsi.gov.uk

More information about the Freedom of Information Act can be found on the website of the Ministry of Justice, Freedom of Information pages.

Feedback on this consultation

We value your feedback on how well we consult. If you have any comments on the process of this consultation (as opposed to the issues raised) please contact our Consultation Coordinator:

Roger Pugh
Department for Work and Pensions' Consultation Coordinator:
Room 2A, Britannia House
2, Ferensway
Hull
HU2 8NF

Phone: 01482 609571

Fax: 01482 609658

Email: roger.pugh@dwp.gsi.gov.uk

Please also make any suggestions as to how the process of consultation could be improved further.

If you have any requirements that we need to meet to enable you to comment, please let us know.

The responses to the consultation will be published in a report on the DWP website that will summarise the responses and the action that we will take as a result of them.

Ministerial foreword

As we near the start of automatic enrolment next year, we need to update the level of earnings which triggers automatic enrolment and the band of earnings on which minimum contributions apply.

We want to make sure that employers automatically enrol as many as possible of the people who will benefit from saving into a pension; while trying to avoid the automatic enrolment of those who are unlikely to benefit. The key tool that we have available to get this targeting right is the earnings trigger which sets the amount that people need to earn before their employers automatically enrol them.

The level of the trigger is a judgement which is difficult because everyone's personal circumstances will differ and will change over their lifetime. The independent *Making Automatic Enrolment Work* review (MAEW) considered this question in detail in 2010 and proposed that the trigger should be set at £7,475. We have revisited their findings in developing our proposals to update the trigger for next year.

We have taken particular care to consider the impact of a rise in the trigger on the low paid – the majority of whom are women – and to assess other equality implications. This will rightly be of great interest to many and we want to be able to take all the relevant evidence into account before reaching a final decision.

We are also seeking views on the band of earnings on which minimum pensions contributions will be made. The current figures for the band were set in the Pensions Act 2008 and now need to be updated. In setting the band, we need to make sure that we balance the amount of contributions that individuals will build up with the impact on employer costs.

The Pensions Act 2011 requires us to review the amounts set for the earnings trigger and the qualifying earnings band each year, changing the figures as appropriate.

There are two broad approaches:

- uprate the figure in the 2008 Act by prices or earnings as appropriate;
- set the new levels at the corresponding thresholds for tax and or NICs at 2012/13 levels.

This is the first time that we have carried out this review and we look forward to hearing your views on our suggested approach.

Steve Webb MP

Minister of State for Pensions

Context for the first review exercise

The start of automatic enrolment is now imminent. In just over seven months, some of the largest employers will start automatically enrolling their workforce. These employers and the payroll software providers who will help them to automate their processes need to know as soon as possible what the key automatic enrolment thresholds will be in 2012/2013.

The current lower and upper limits of the qualifying earnings band were set (in 2006/07 earnings terms) in the Pensions Act 2008 at £5,035 and £33,540. The automatic enrolment earnings trigger (the level of earnings from which people are automatically enrolled) was set at £7,475 (in 2011/12 terms) in the Pensions Act 2011.

These figures are all now out of date. The Government is required to review the figures ahead of each tax year and, taking into account a number of factors, to decide whether or not the lower and upper limits and the earnings trigger should be changed.

The review may take into account, amongst other factors, the general level of prices or earnings, income tax and national insurance thresholds, the prevailing rate of state pensions, and any other relevant factor. Full details of these factors are in Annex A. The levels can be increased or decreased.

A revision Order is subject to affirmative resolution which will ensure a thorough examination of automatic enrolment thresholds in Parliament in advance of every tax year.

The power to review the automatic enrolment thresholds is deliberately wide. It gives this and future Governments enough flexibility to future-proof their approach and react to changing policies and economic times.

This document sets out the evidence base, our analysis and initial proposals along with the rationale for these.

Policy principles and approach

We have identified a small number of principles that we think are of primary importance in setting the automatic enrolment thresholds:

(i) **Will the right people be brought in to 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?

(ii) **What is the appropriate minimum level of saving for people who are automatically enrolled?** The size of the band of earnings on which people will accrue their pension contributions will determine the minimum amount that they will save and how much their employer will contribute to their pension. The MAEW review recommended that everyone who is automatically enrolled should pay contributions on a meaningful portion of their income. To ensure this, we need to maintain a gap or de minimis between the lower limit of the qualifying earnings band and the earnings trigger so that no one is automatically enrolled and then only pays contributions of a few pence a month.

(iii) **Are the costs and benefits to individuals and employers appropriately balanced?** This was one of the key questions investigated through the MAEW Review and it remains very relevant given the tough economic times that businesses are currently operating in. In particular, we have considered the review recommendation that automatic enrolment figures should be aligned with tax or National Insurance thresholds which are already familiar to employers.

We considered each of these principles alongside an assessment of the relevance of each of the review factors set out in the Pensions Act 2011 (see Annex A). To narrow down the range of possible options, we have dismissed the factors that are clearly not relevant to a particular threshold and have also conflated very similar figures.

Revision of the automatic enrolment earnings trigger

Automatic enrolment into a workplace pension scheme is designed to target moderate to low earners who are either not saving, or not saving enough as a minimum, for their retirement. The automatic enrolment earnings trigger is the key driver for who should save. The original proposal was that the trigger should be set at the same level as the lower limit of the qualifying earnings band (£5,035 in 2006/07 terms).

One of the key topics of debate about the introduction of an earnings trigger that is higher than the lower limit of the qualifying earnings band has been the impact that this will have on low earners who are predominately women.

The MAEW Review considered this question in detail. It concluded that for persistent low earners who get a high replacement rate from the State without private pension saving, it may well not make sense for them to divert their earnings from meeting current expenses.

The Review also suggested other factors that should be taken into account when setting the earnings trigger:

- those with earnings below the trigger level will have a right to opt in to pensions saving, and will receive an employer contribution if they have earnings higher than the lower limit of the contributions band;
- earnings are likely to fluctuate, so an individual is likely to be automatically enrolled at some point when they earn more;
- an individual’s family circumstances are also key for some low earners; they may have a higher paid partner and it might well make sense for them to save for the family as a whole.

Because these factors are complex, sometimes linked and difficult to predict, it is very hard to define a clear cut off point below which we could say that an individual should definitely not be saving.

The level at which we set the automatic enrolment trigger must therefore strike a balance between maximising pension saving for those whom saving is valuable and, just as important, minimising the number captured for whom it is not.

Earnings trigger options

The MAEW Review recommended that automatic enrolment should be linked with the point at which people reach the income tax threshold. It concluded that very low paid people, in particular people who do not earn enough to pay income tax, should not be automatically enrolled. The Government accepted this recommendation but now needs to decide whether the trigger should remain aligned with the PAYE tax threshold for the coming year or be set at a different rate.

A summary of relevant factors follows at Table 1. Details of other potential revision factors that were considered and rejected are set out in Annex B.

Table 1: Summary of review factors for 2012/13 relevant to the revision of the automatic enrolment earnings trigger

Value 2012/13	Factor	Relevancy
£8, 105	Actual PAYE personal tax threshold 2012/13	Excludes very low earners who do not earn enough to pay tax; aligns with existing threshold.
£7,605	Actual National insurance primary threshold 2012/13	Start of paid contributions for basic state pension; automatic enrolment is intended to build on state pension provision.
£7,864	Price inflation - we have used CPI as the relevant measure for consistency with the Government's wider policy. (Baseline of £7,475 in the Pensions Act 2011 revised by prices)	Links to the real value of pension savings and affordability

Consultation question 1

Q1: Are there any other relevant factors that should be taken into account for the revision of the automatic enrolment trigger for 2012/2013? If so please explain why.

Revision of the qualifying earnings band lower and upper limits

The qualifying earnings band drives the minimum amount that people have to save. Once someone is automatically enrolled and full contribution levels are reached, minimum pension contributions of 8% of a band of earnings are payable with at least 3 per cent from an employer contribution.

When the band of earnings was introduced through the Pensions Act 2008, the lower limit was aligned with the earnings threshold (Primary Threshold) for National Insurance contributions (NICs). This is the level at which individuals begin to pay national insurance contributions for the basic state pension. The higher level was set at £33,540 aligned with the NICS upper earnings limit.

The MAEW Review recommended that the lower limit of the qualifying earnings band should be aligned with the national insurance primary threshold. It recommended that the upper limit of the qualifying earnings band should be increased in line with the rise in average earnings. The Government accepted these recommendations but now needs to decide whether the earnings band should continue to be set in this way for the coming year or be set in a different way.

A summary of relevant factors follows at Tables 2 & 3. Details of other potential revision factors that were considered and rejected are in Annex B.

Table 2: Summary of review factors relevant to the revision of the qualifying earnings band lower limit

Value 2012/13	**Factor**	**Relevancy**
£5,564	Actual NICs LEL in 2012/13	Earnings threshold for credited contributions for basic state pension.
£7,605	Actual NICs PT in 2012/13	Earnings threshold for paid contributions for basic state pension
£5,983	Average earnings = Value in Pensions Act 2008 revised by rise in average earnings	The Pensions Commission recommended that income in retirement should reflect earnings during working life and as a logical corollary, that pension saving should increase as earnings rise.
£6,055	Price inflation - we have used CPI as the relevant measure for consistency with the Government's wider policy. (Baseline of £5,035 in the Pensions Act 2008 revised by prices)	Affordability for worker and employer costs

Table 3: Review factors relevant to the revision of the qualifying earnings band upper limit		
Value 2012/13	**Factor**	**Relevancy**
£42,475	Actual NICs UEL 2012/13	Critical break point between mandatory minimum saving with an employer contribution and ongoing personal provision as envisaged by the Pensions Commission.
£39,853	Value in Pensions Act 2008 revised by rise in average earnings	Pension savings levels should reflect workers earnings levels; also upper limit caps employer costs
£40,332	Price inflation We have used CPI as the relevant measure for consistency with the Government's wider policy. (Baseline of £33,540 in the Pensions Act 2008 revised by prices)	Pension savings levels should reflect workers earnings levels; also upper limit caps employer costs

Consultation questions 2 and 3

Q2: Are there any other relevant factors that should be taken into account for the revision of the qualifying earnings band lower limit for 2012/13? If so please explain why.

Q3: Are there any other relevant factors that should be taken into account for the revision of the qualifying earnings band upper limit for 2012/13? If so please explain why.

Initial analysis of impact of relevant revision factors

NOTE: The costs and saving figures are per annum once contributions are fully phased in.

We have analysed the impact of the potential options, considering the potential impact on pension savings, volumes and employer contributions. The relationship between the thresholds, in particular the interaction between the automatic enrolment earnings trigger and the lower limit of the qualifying earnings band, is critical to balancing the overall impact. A more detailed analysis is in Annex D

In broad terms, any decrease in the value of the earnings trigger would bring more of the very low paid into the scope of automatic enrolment and would also increase employer costs.

Any increase in the automatic enrolment trigger would, in isolation, reduce employer contributions but exclude a number of low paid earners from automatic enrolment. Our assessment of the equality implications of changes to the earnings trigger is at Annex C.

The analysis shows that any value for the lower limit of the qualifying earnings band that is *higher* than £5,983 causes a reduction in the overall pension saving generated by automatic enrolment.

An increase of the upper limit of the qualifying earnings band in isolation has the potential to increase both employer contribution costs and to increase some individuals' savings levels. We do not consider that an increase to the upper limit that is greater than the baseline, revalued by earnings, is a viable option in the light of current economic circumstances.

To understand the balance and relationship between the potential options, we have considered some costs and savings side by side to compare the financial impact of factors operating together. Having done this, and taken into account our policy principles two leading options for the new thresholds emerge.

Option 1: Revise by CPI

Table 4 sets out the overall cost impact of a revision of both the trigger and the lower limit of the qualifying earnings band by CPI. This is broadly equivalent to revising by the increase in average earnings. Both employer contributions and savings fall – by around £12m and £45m respectively. However, of the £45m total reduction in pension saving, £5m is the result of excluding those workers who would earn less than the trigger.

Option 2: Use PAYE threshold and NICs LEL

Table 5 sets out the overall impact of the trigger and the lower limit revised by the PAYE threshold and the NICs LEL respectively. This changes the picture significantly. The interactions here produce an overall increase in employer costs of £45m against a net increase in pension savings of £117m.

Tables 4 and 5 set out the impact of these options on costs and savings

Table 4: Option 1 Revise by CPI		
	Employer conts	Pension saving
Automatic enrolment earnings trigger £7,864	⇩ Down £2m	⇩ Down £5m
Qualifying earnings band lower limit £6,055	⇩ Down £10m	⇩ Down £40m
Overall net impact	⇩ Down £12m	⇩ Down £45m
De-mimimis value £1,629, or contributions of £145 per year, £2.50 per week		

Table 5: Option 2 Revise by PAYE threshold and NICs LEL		
	Employer conts	Pension saving
Automatic enrolment earnings trigger £8,105	⇩ Down £5m	⇩ Down £13m
Qualifying earnings band lower limit £5,564	⇧ Up £50m	⇧ Up £130m

Overall net impact	⇧ Up £45m	⇧ Up £117m
De-mimimis value £2,525; or contributions of £200 per year, £4.00 per week		

As discussed earlier in the document, earnings are dynamic and change over a lifetime making it hard to assert with any confidence that a group of people with earnings at this level should never save. But the Government's view is that low earners should make a conscious choice to save in the full knowledge of their individual's circumstances, rather than being automatically enrolled.

If the trigger were revised by CPI, a small number of low earners who do not pay enough to pay income tax would be automatically enrolled. Revising the trigger and the lower limit of the earnings band by CPI would not produce recognisable thresholds for employers.

Option 1 does not deliver against the core policy principles identified for this review.

An increase in the trigger to the PAYE threshold ensures that low earners that do not earn enough to pay income tax are not caught by automatic enrolment. Aligning the lower limit of the qualifying earnings band with the NICs LEL ensures that everyone who is automatically enrolled pays contributions on a meaningful portion of their income. These also align with thresholds that are already familiar to employers. Option 2 does deliver against the policy principles.

Emerging proposals for 2012/13 revision

Taking into account the MAEW recommendation that automatic enrolment thresholds should be aligned wherever possible with figures that are already in use by employers each year for other payroll functions, we have concluded that the evidence points to thresholds of:

- £8,105 for the automatic enrolment earnings trigger to align with the PAYE threshold;
- £5,564 for the lower limit of the qualifying earnings band to align with the NICs LEL;
- £39,853 for the upper limit of the qualifying earnings band.

We have not at this point chosen to mirror the upper limit of the qualifying earnings band with the NICs UEL, At over £42,000 it would increase employer costs by £40 million a year in steady state. Instead we have taken the baseline figure in the 2008 Act and uprated that by the rise in average earnings.

Consultation questions 4 and 5

Q4: Do you agree with these recommendations for the automatic enrolment thresholds for 2012/13?

Q5: Do you agree in particular that for next year the upper limit of the qualifying earnings band is capped below the NICs UEL?

Pay reference periods

Although this consultation document presents automatic enrolment thresholds in annual terms, employers will apply the weekly (or monthly etc) figure appropriate to their payroll cycle.

The revision Order that we will lay before Parliament will also prescribe the values for the pay periods commonly used by employers. Based on work with the payroll software industry, we believe that the following is a comprehensive list of all the pay periods in common operation:

- Weekly
- Fortnightly (2 weeks)
- Calendar monthly
- Lunar monthly (4 weeks)
- Quarterly (3 calendar months)
- Triannual (4 calendar months)
- Biannual (6 calendar months)

Consultation question 6

Q6: Do the pay periods set out in this document capture all pay periods employers use? Are there any omitted from the list which we will have to cater for when the figures are prescribed for next year?

Annex A – Review factors specified in Section 8 of the Pensions Act 2011

The factors that the Secretary of State may take into account for the annual review are in section 8 of the Pensions Act 2011. The review factors are:

(a) the amounts for the time being specified in Chapter 2 of Part 3 (personal allowances) of the Income Tax Act 2007. We considered the **PAYE personal tax threshold applicable to people of working age** to be a relevant amount. We excluded personal tax allowances which include age allowances and blind allowances.

(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). We considered the **Lower Earnings Limit, the Primary Threshold and the Upper Earnings Limit** to be relevant amounts.

(c) the amount for the time being specified in section 44(4) of that Act (**rate of basic 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. We have used the latest National Statistics on annual wage and price inflation.

(e) any any other factors that the Secretary of State thinks relevant.

Annex B – Review factors that were considered not relevant for the revision exercise

Automatic enrolment earnings trigger

We identified five factors that are either not relevant to a revision of the automatic enrolment earnings trigger or are relevant but are so similar that we consider they should be subsumed by other factors.

The national insurance upper earnings limit is not a relevant factor for the trigger because it is too high.

The value of the LEL in 2012/13, although relevant in principle, does not, in combination with any other candidate figure, provide the de-minimis cushion that is central to our policy. The rate of the basic state pension (£5,588) is very similar to the level of the national insurance LEL; it also does not provide the de-minimis cushion.

A “do nothing” option has also been excluded. It makes no sense to retain a figure that does nor take account of the current cost of living or economic circumstances.

While revaluing the trigger with the rise in average earnings was deemed relevant, it produced a similar figure to the national insurance primary threshold.

A summary of factors that are not relevant to the automatic enrolment earnings trigger follows at Table 6.

Table 6: Review factors excluded as not relevant to the revision of the automatic enrolment earnings trigger, or subsumed by similar factors

Value 2012/13	**Factor**	**Reason excluded**
£42,475	NICs UEL	Too high to be an entry point for saving.
£5,564	NICs LEL	De-minimis not achieved at this figure
£5,588 (rounded)	Rate of basic state pension in payment	De-minimis not achieved at this figure
£7,692	Earnings	Excluded as figure very similar to PT (£7,605) and the impact is similar.

Review factors that are not relevant for the lower limit of the qualifying earnings band

We identified three factors that are either not relevant to a revision of the lower limit of the qualifying earnings band or are relevant but are similar and subsumed by other factors.

We have excluded the rate of the basic state pension as a review factor for the lower limit for next year only because at £5,588 it is very close to the national insurance lower earnings limit of £5,564.

The national insurance upper earnings limit is not a relevant factor for the qualifying earnings band lower limit. It is too high. It marks the start of higher national insurance contributions. It is not an entry level for basic saving.

We do not propose to take a “do nothing” option forward to retain the value of the lower limit of the qualifying earnings band at the original £5,035. This was the NICs primary threshold in 2006/07. It makes no sense to retain a figure that does nor take account of the current cost of living or economic circumstances.

NOTE: However, because earnings are a relevant factor, we have taken the figure of £5,035 and we have revalued that to £5,983 using the latest ONS national statistics on average earnings inflation to project it to 2012/13 terms.

A summary of factors that are not relevant to the qualifying earnings band lower limit follows at Table 7.

Table 7 Review factors excluded as not relevant to the revision of the qualifying earnings band lower limit or subsumed by similar factors		
Value 2012/13	**Factor**	**Reason excluded**
£5,588 (rounded)	Rate of basic state pension in payment	Similar to the NICs LEL (£5,564)
£42,475	NICs UEL	Too high to be an entry point for saving.
£5,035	NICs primary threshold 2006/07	Adds cost to business.

Review factors that are not relevant for the upper limit of the qualifying earnings band

We disgarded four factors that are not relevant to the upper limit of the qualifying earnings band.

The national insurance lower earnings limit, the national insurance primary threshold and the rate of basic state pension are all far too low to be relevant factors. Ranging from £5,564 to £7,605 they point towards entry levels not a cap.

We do not propose to take a “do nothing” option forward to retain the value of the lower limit of the qualifying earnings band at the original £33,540. This was the NICs upper earnings limit in 2006/07. It is out of date but we believe that contributions capped at this level would risk individuals undersaving and undermine the reforms.

NOTE: However, because earnings are a relevant factor, we have taken the figure of £33,540 and we have revised that to £39,853 using the ONS Average Earnings Index to project it to 2012/13 terms.

A summary of factors that are not relevant to the qualifying earnings band upper limit follows at Table 8.

Table 8: Review factors excluded as not relevant to the revision of the qualifying earnings band upper limit or subsumed by similar factors

Value 2012/13	Factor	Reason excluded
£5,564	NICs LEL	Too low to be relevant to the upper limit of the qualifying earnings band
£5,588 (rounded)	Rate of basic state pension in payment	Too low to be relevant to the upper limit of the qualifying earnings band
£7,605	NICS PT	Too low to be relevant to the upper limit of the qualifying earnings band
£33,540	NICs UEL 2006/07 (Pensions Act 2008)	No-change scenario considered too low to offer adequate savings for retirement

Annex C – Equality Implications of changes to the earnings trigger

We estimate that there are 9 to 10 million workers eligible for automatic enrolment, of whom just under two in five (39 per cent) are women.

Raising the 2011/12 value of the automatic enrolment trigger from £5,035 (in 2006/07 terms) to £7,475 excluded 600,000 women. As women are more likely to work part-time, or earn less than men, they will be disproportionately represented in the group excluded from automatic enrolment by an upward revision of the trigger and conversely in any group brought into pension saving by a decrease in the trigger. For example:

- of the 20,000 individuals brought into pension saving on a trigger of £7,605, around 17,000 are women;
- of the 40,000 individuals who would not be eligible for automatic enrolment if the earnings trigger was revised to £7,864 from £7,692 (in 2012/13 terms), around 34,000 are women;
- if the earnings trigger was revised to £8,105, the equivalent figures are around 75,000 women excluded from a total of around 90,000.

Persistent low earners tend to find that the State, through pensions and benefits, provides them with an income in retirement similar to that in working life without the need for additional saving. For these individuals it may not be beneficial to direct income from working life into pension saving. Furthermore, anyone who is not automatically enrolled because of an increase in the earnings trigger will retain the right to opt in with an employer contribution. Employers will be required to provide information about this.

Revising the current earnings trigger to the PAYE threshold (£8,105 in 2012/13 terms) does not affect the proportion of minority ethnic groups in the total number of persons to be automatically enrolled. The composition of the revised eligible group remains the same at 12 per cent black and minority ethnic groups (BME).

The evidence also suggests that revising the earnings trigger would not particularly affect people with a disability. It is estimated that 17 per cent of the revised eligible group will comprise workers with a disability if the earnings trigger is revised to £7,864 or £8,105 (in 2012/13 terms). This is the same proportion as is included in the current eligible group (£7,684 in 2012/13.)

The median age of those eligible for automatic enrolment on the current earnings trigger is 40 years which indicates that there is a slightly higher proportion of younger workers in the eligible group. However specific age groups are not particularly affected by changing the value of the earnings trigger.

The changes under consideration are not expected to particularly affect individuals according to their sexual orientation, religion or belief.

Annex D – Costs and benefits analysis

These tables show the effect of revising the automatic enrolment earnings trigger and the lower and upper levels of the qualifying earnings band on employers, individuals and the Government.

In order to show the direction and size of the change, we have compared each proposal against the same baseline. The baseline chosen is the earnings trigger and qualifying earnings band defined in the 2011 and 2008 Pensions Acts (revalued by average earnings to set them in 2012/13 terms).

The impacts of the changes are shown in steady state i.e. once all employers are staged in and minimum contributions are fully phased in. The impact in 2012/13 will be significantly lower than it is estimated to be in steady state due to the effects of staging and phasing. In 2012/13 only the largest employers will be staged in and minimum employer contributions will be 1 per cent.

Table A1, below illustrates the effect of changing the earnings trigger. Decreasing the earnings trigger brings slightly more people into pension saving and increases the amount saved in pensions from automatic enrolment. Consequently employers are faced with slightly increased costs from making contributions for a new group of individuals and there is an associated increase in the cost to government. Increasing the earnings trigger reduces the number of people automatically enrolled. The level of pension saving in steady state is also therefore reduced as are minimum contributions from employers, individuals and the Government.

The effects of changing the trigger in isolation are small in relation to changing the width of the contributions band. This is because changing the trigger by the factors under consideration only affects a relatively small number of people (around 90,000 at most). These individuals are all low earners, the average amount of qualifying earnings at a revised earnings threshold of £8,105 would be around £2,000. In steady state this equates to a weekly contribution of just over £1 from the employer, £1.50 from the individual and £0.40 in the form of individual tax relief. On the other hand, changing the lower level of the qualifying earnings band affects all of those who are automatically enrolled by changing the amount of earnings on which minimum contributions must be made. The size of the effects are therefore larger.

Tables A2 and A3, below show the effect of changing the lower and upper levels of the qualifying earnings band. Decreasing the lower level of the qualifying earnings band increases the amount of earnings on which minimum contributions must be made. This leads to increased pension saving, and therefore increased costs to individuals, employers and Government in the form of tax relief. Conversely, if the lower level of the qualifying earnings band is increased, the amount of earnings on which minimum contributions must be made is reduced. This leads to a reduction in pension saving and therefore reduced costs to individuals, employers and the government.

The outcomes are much more sensitive to changes made to the lower level of the qualifying earnings band as they affect all individuals who are automatically enrolled. Increasing the upper limit of the qualifying earnings band only affects the amount of contributions made for individuals in the top earnings quintile.

The approach taken to estimating the cost of contributions and the number of individuals affected is consistent with the methodology used to assess the impacts of the workplace pension reforms. The latest National Statistics on wage and price inflation have been used. We have used the Average Weekly Earnings index to measure wage inflation. Specifically, we have used the annual change in total pay for private sector employees, seasonally adjusted, over the latest 3-month period available (June-August). We have used the Consumer Price Index for price inflation, taking the annual change between September and the previous September.

The impacts shown in these tables cannot be added together to inform a net effect as the size of the eligible group is different in the tables showing the effect of changing the earnings trigger than that in the tables showing the effects of varying the lower and upper levels of the qualifying earnings band.

Tables A.1 Estimates of the impact of changing the earnings trigger on employers, individuals and Government (£ million, in steady state)

Earnings Trigger (in 2012/13 terms)	**Rationale**	**Demographic Effects**	**Employer Contributions**	**Individual Contributions**	**Individual Tax Relief**	**Level of Pension Saving**	**Employer Tax Relief**
£7,692 terms (baseline of PAYE threshold of £7,475 in 2011/12 revalued by average earnings)	Included in 2011 Pensions Bill	Eligible group (9-10 million) Women – 39% BME – 12% Disabled – 17%	£3,270m	£4,280m	£1,210m	£8,760m	£800m
£7,605	NICS PT	Newly included group (0.02m):	+£1m	+£1m	£0.3m	+£2m	+£0.2m
£7,864	CPI	Excluded group (0.04m): Women – 85%	-£2m	-£2m	-£1m	-£5m	-£0.5m
£8,105	PAYE Personal Tax threshold	Excluded group (0.09m): Women – 82%	-£5m	-£6m	-£2m	-£13m	-£1m

Notes:

- Source: DWP modelling.
- The qualifying earnings band is set as £5,983 to £39,853 in 2012/13 terms for all options
- Figures are expressed in 2012/13 earnings terms.
- Figures are rounded to the nearest £10 million, £1 million or £100,000 as appropriate.
- Higher pension saving is the sum of tax relief, employer contribution and individual contribution costs.
- Sample sizes are not sufficient to show with certainty the proportion of those with a disability and the proportion of those of Black and minority ethnic group at earnings triggers of £7,605, £7,864 and £8,105.
- The estimates of the total costs shown here are lower than the aggregate costs in recent publications on the impacts of the Workplace Pension Reforms. This is because we have used the latest information on wage inflation in producing the estimates and the actual rates are lower than forecast.

Table A.2: Estimates of the impact of changing the lower limit of the qualifying earnings band on employers, individuals and Government (£ million, in steady state)

Bottom of the QEB (in 2012/13 terms)	**Rationale**	**Employer Contributions**	**Individual Contributions**	**Individual Tax Relief**	**Level of Pension Saving**	**Employer Tax Relief**
£5,983	Baseline based on Earnings	£3,270m	£4,280m	£1,210m	£8,760m	£800m
£5,564	NICs LEL	+£50m	+£60m	+£20m	+£130m	+£10m
£6,055	CPI	-£10m	-£20m	-£5m	-£40m	-£5m
£7,605	NICS PT	-£330m	-£430m	-£130m	-£890m	-£80m

Notes:

- Source: DWP modelling.
- The earnings trigger is set at £7,692 in 2012/13 terms and the top of the qualifying earnings band is set as £39,853 in 2012/13 terms for all options Figures are expressed in 2012/13 earnings terms.
- Figures are rounded to the nearest £10 million, £5 million as appropriate.
- Higher pension saving is the sum of tax relief, employer contribution and individual contribution costs.
- The estimates of the total costs shown here are lower than the aggregate costs in recent publications on the impacts of the Workplace Pension Reforms. This is because we have used the latest information on wage inflation in producing the estimates and the actual rates are lower than forecast.

Table A.3: Estimates of the impact of changing the upper limit of the qualifying earnings band on employers, individuals and Government (£ million, in steady state)

Upper Limit of the QEB (in 2012/13 terms)	**Rationale**	**Employer Contributions**	**Individual Contributions**	**Individual Tax Relief**	**Higher Pension Saving**	**Level of Pension Saving**	**Demographic Effects**
£39,853	Baseline, based on Earnings	£3,270m	£4,280m	£1,210m	£8,760m	£800m	81% earn below the upper limit of the QEB
£40,332	CPI:	+£10m	+£10m	+£3m	+£20m	+£2m	82% earn below the upper limit of the QEB
£42,475	NICS UEL	+£40m	+£50m	+£15m	+£100	+£10m	85% earn below the upper limit of the QEB

Notes:

- Source: DWP modelling.
- The Earnings Trigger is set at £7,692 in 2012/13 terms and the bottom of the qualifying earnings band is set as £5,983 in 2012/13 terms for all options Figures are expressed in 2012/13 earnings terms.
- Figures are rounded to the nearest £10 million, £5 million as appropriate.
- Higher pension saving is the sum of tax relief, employer contribution and individual contribution costs.
- The estimates of the total costs shown here are lower than the aggregate costs in recent publications on the impacts of the Workplace Pension Reforms. This is because we have used the latest information on wage inflation in producing the estimates and the actual rates are lower than forecast.

Annex E – Consultation questions

Q1: Are there any other relevant factors that should be taken into account for the revision of the automatic enrolment trigger for 2012/13?

Q2: Are there any other relevant factors that should be taken into account for the revision of the qualifying earnings band lower limit for 2012/13?

Q3: Are there any other relevant factors that should be taken into account for the revision of the qualifying earnings band upper limit for 2012/13?

Q4: Do you agree with these recommendations for the automatic enrolment thresholds for 2012/13?

Q5: Do you agree in particular that for next year the upper limit of the qualifying earnings band is capped below the NICs UEL?

Q6 Do the pay periods set out in this document capture all pay periods employers use? Are there any omitted from the list which we will have to cater for when the figures are prescribed for next year?

Annex F – List of organisations consulted

Adecco

Aegon

Age Concern

Allen & Overy LLP

Aon Consulting UK

Arc Benefits Limited

Association of British Insurers

Association of Chartered Certified Accountants

Association of Consulting Actuaries

Association of Corporate Trustees

Association of Independent Financial Advisors

Association of Members-Directed Pension Schemes

Association of Pension Lawyers

Aviva

Barclays Bank

Bluefin

British Broadcasting Company

British Chambers of Commerce

Building and Civil Engineering Benefits Scheme

Buck Consultants Ltd

Business and Sports Leisure

Capital Hartshead

Chamber of Shipping

Chartered Institute of Personnel Development

Clarks International

Confederation of British Industry

Department of Business Innovation and Skills

Department for Energy and Climate Change

Department for Social Development Northern Ireland

Department for Transport

Engineering Employers Federation

Evershed LLP

Federation of Small Businesses

Fidelity

First Actuarial

Financial Services Authority

Foreign and Commonwealth Office

Friends Provident

Gissings Consultancy Services

GMB

Hamish Wilson

Help the Aged

Hewitt Associates Limited

HM Revenue & Customs

HM Treasury

Hyman Robertson

Institute of Chartered Accountants in England and Wales

Institute of Chartered Accountants of Scotland

Institute of Directors

Investment and Life Assurance Group

Investment Managers Association

Law Debenture

Law Society of England and Wales

Law Society of Scotland

Legal & General

Lloyds Group

Local Government Employers

Logica

Lovells LLP

Marks and Spencers plc

Mayer Brown International

Mercer Limited

Ministry of Justice

Navy, Army and Air Force Institutes

National Association of Pension Funds

National Farmers Union

National Union of Rail, Maritime and Transport Workers

Nautilus

Northern Rock plc

Office of Fair Trading

Office to the Solicitor to the Advocate General

Offshore Contractors Association

Pension Protection Fund

Pensions Management Institute

Pensions Ombudsman

Pensions Policy Institute

Personal Accounts Delivery Authority

PriceWaterhouseCoopers LLP

Professional Contractors Group

Prudential

Punter Southall

Recruitment and Employment Confederation

Resolution

Royal Opera House

Sainsbury

Saul Trustee Company

Scottish Police Services Authority

Scottish Public Pension Agency

Scottish Office

Society of Pension Consultants

Tax Incentivised Savings Association

Tesco

The Actuarial Profession

The Co-operative Group

The Institute of Payroll Professionals

The Pensions Advisory Service

The Pensions Regulator

The Scottish Government

The Society of Pension Consultants

The Welsh Assembly Government

Trades Union Congress

Wales Office

Watson Wyatt

Whitbread Group

Which?

Zurich

Annex G – Glossary of terms

Automatic enrolment

Employers will be required to make arrangements by which eligible jobholders become active members of an automatic enrolment scheme with effect from the automatic enrolment date.

Automatic enrolment earnings trigger
Prescribed level of earnings required for an individual to be automatically enrolled into their employer's workplace pension scheme.

Consumer Price Index (CPI) measures consumer inflation with reference to the changing cost of a fixed basket of goods and services.

Eligible group

The 9 to 10 million workers eligible for automatic enrolment.

Lower Earnings Limit (LEL) is the point at which employees start to build up entitlement to contributory benefits. It is fixed each year by regulations.

National Insurance primary threshold (PT) is the earnings level from which payment of National Insurance Contributions (NICs) is due. It is fixed each year by regulations.

National insurance upper earnings limit (UEL) Where earnings exceed the UEL, the employee pays NICs at 2% on those earnings above the UEL.

Pay As You Earn (PAYE) is a tax collection system operated by employers who calculate and report deductions from earnings above a PAYE personal allowance threshold using tax codes and rules provided by HMRC.

Pensionable pay

Pay on which pension contributions are calculated.

Qualifying earnings

An earnings band comprised of salary, wages, commission, bonuses, overtime, statutory sickness, maternity, paternity and adoption pay. Contributions into a money purchase scheme must at least equal a minimum of 8% (of which at least 3% must be from the employer).