

Workplace Pensions Reform: Additional costs of making employer contributions from pound one, instead of the qualifying earnings band lower limit

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Background

1. The workplace pensions reforms require employers to enrol eligible jobholders into a qualifying automatic enrolment pension arrangement and pay at least a minimum contribution for them. Eligible jobholders are aged at least 22 and under the state pension age¹, ordinarily working in the UK, with earnings in excess of the automatic enrolment earnings trigger. Minimum contributions of eight per cent must be paid for workers, over a band of qualifying earnings², of which at least three per cent must be paid by the employer. Employers are being staged incrementally into the reforms starting with the largest. Employers will also be able to adapt to the additional costs of the minimum contribution gradually, by phasing in contributions over time. The reforms will be fully implemented by October 2018.

2. This note provides an estimate of the additional costs borne by employers in 2013/14 if contributions to a qualifying workplace pension are calculated from pound one, instead of the lower limit of the qualifying earnings band, which will be £5,668 in 2013/14.

3. Estimates of employer costs using the Government's proposed, and now legislated, thresholds for 2013/14 were published in the Government's response³ to the 2013/14 consultation⁴ into the automatic-enrolment earnings thresholds. The methodology used in this and the previous publications, is identical.

Methodology

4. Estimates of minimum employers' pension contributions resulting from the reforms show the additional costs to employers of the reforms and are calculated using:

- estimates of the number of workers for and from whom additional contributions are due – estimated from DWP modelling⁵;
- workers' average qualifying earnings estimated using the Annual Survey of Hours and Earnings (ASHE)⁶; and
- assumed minimum contribution rates for employers (1% of qualifying earnings)⁷.

¹ Captures men aged 65 and women aged 60, as defined in 2007. However, equalisation of the female state pension age to that of men has in practice raised the retirement age of women.

² Qualifying earnings, for 2013/14, are defined as the band of earnings between £5,668 and £41,450.

³ <http://www.dwp.gov.uk/docs/ae-thresholds-2013-2014-response.pdf>. December 2012.

⁴ <http://www.dwp.gov.uk/docs/ae-thresholds-2013-2014-consultation.pdf>. September 2012.

⁵ The modelling takes account of the incremental staging of employers into the reforms.

⁶ For details on ASHE see the following ONS web link: <http://www.ons.gov.uk/ons/guide-method/surveys/respondents/business/a-z-of-business-surveys/annual-survey-of-hours-and-earnings-ashe-/index.html>.

⁷ Minimum employer contributions will rise, in a phased manner, to 3% by 2018. <https://www.gov.uk/workplace-pensions/what-you-your-employer-and-the-government-pay>.

5. Baseline costs are calculated assuming that minimum employers' contributions are paid for eligible workers on earnings between £5,668 and £41,450. The pound one costs are calculated assuming that minimum employers' contributions are paid for eligible workers on earnings between £0 and £41,450.

Results

Table 1: Contribution costs of workplace pensions reforms to employers in 2013/14

	Minimum employers' contributions in 2013/14
Baseline costs <i>(contributions calculated from £5,668)</i>	£380m
Pound one costs (extra) <i>(contributions calculated from £0)</i>	+£130m

Notes:

1. Source: DWP modelling.
2. **Baseline costs** have been estimated using the lower and upper limits of the qualifying earnings band, set at the legislated 2013/14 values of £5,668 and £41,450, respectively.
3. **Pound one costs** have been estimated assuming that the lower limit of the qualifying earnings band has been set to £0.
4. Table 1 shows how much higher minimum employers' contribution costs would be in 2013/14 if contributions were estimated from pound one instead of £5,668.
5. Estimates have been expressed in 2012/13 earnings terms and rounded to the nearest £10 million.