Department
for Work &
Pensions

Automatic enrolment earnings thresholds review and revision 2013/14

Government response to the consultation on revision proposals for the automatic enrolment earnings trigger and the qualifying earnings band

December 2012

Contents

Introduction ... 3
Review of the automatic enrolment earnings trigger ... 4
What the consultation said ... 4
Responses to the consultation ... 5
Government response ... 6
Review of the qualifying earnings band ... 8
What the consultation said – Lower Limit ... 8
Responses to the consultation on the qualifying earnings band – Lower Limit ... 9
Government response ... 10
What the consultation said – Upper limit ... 11
Responses to the consultation on the qualifying earnings band – Upper Limit ... 12
Government response ... 13
Government proposals for 2013/14 automatic enrolment earnings trigger and qualifying earnings band ... 14
Annex A: Review factors specified in Section 14 of the Pensions Act 2008 ... 15
Annex B: Equality implications of changes to the earnings trigger ... 16
Annex C: Costs and benefits of final proposals ... 17
Annex D: Review factors considered and rejected for the revision of automatic enrolment thresholds ... 19
Annex E: Respondents ... 23
Annex F: Glossary of terms ... 24

Introduction

Automatic enrolment obliges employers to enrol all workers who satisfy age and earnings criteria into a workplace pension arrangement and pay at least a minimum level of contributions.

The automatic enrolment earnings trigger determines who saves. The qualifying earnings band sets minimum contribution levels for money purchase schemes. These thresholds must be reviewed each year, and revised if appropriate, taking into account the prevailing rates of National Insurance contributions, PAYE personal tax allowance, basic state pension, price and earnings inflation and any other factors that the Secretary of State considers appropriate [See Annex A].

Although the Secretary of State has some flexibility in the way these thresholds are set, section 14 of the Pensions Act 2008 constrains this flexibility. The reviews must be discrete annual considerations. The Government can set out policy objectives and the principles that should inform the setting of the thresholds. It cannot pre-determine rates or the approach for future years.

We identified three policy principles for the first annual review that we consider continue to be of primary importance in setting the automatic enrolment thresholds:

- Will the right people be brought in to pension saving?
- What is the appropriate minimum level of saving for people who are automatically enrolled?
- Are the costs and benefits to individuals and employers appropriately balanced?

We received 24 formal written responses to the consultation on this year's rates from employer organisations, pension providers, accountants, lawyers, trades unions and consumer organisations. We are grateful to everyone who replied. A list of organisations that responded to the consultation is at Annex E.

Responses highlight the ongoing issues and competing priorities that have a bearing on the thresholds for year two. The challenge is balancing coverage, pension savings and employer costs. There are key points of principle about the exclusion of very low earners and the relationship with the tax system. While there are differences of opinion as to the correct approach, views generally show a disinclination to change course this year.

We propose to lay an Order before Parliament as follows:

£9,440 for the automatic enrolment earnings trigger;

£5,668 for the lower limit of the qualifying earnings band;

£41,450 for the upper limit of the qualifying earnings band.

The Order is subject to the affirmative resolution procedure and will require the approval of both Houses of Parliament.

This document is available on the DWP website at:

Automatic enrolment earnings thresholds: review and revision 2013/2014

Review of the automatic enrolment earnings trigger

What the consultation said

Automatic enrolment into a workplace pension scheme is designed to target moderate to low earners who are either not saving or not saving at least a minimum for their retirement.

If the trigger is too high then people who should be saving, or should be saving more may lose out. Conversely, if the trigger is too low, people who cannot afford to save and are very likely to receive a high replacement rate from the state, would be enrolled when it makes little sense to save for retirement and they should probably opt out. This is a balance and in striking that balance we need to assess the equality implications and consider the impact on the low paid, the majority of whom are women.

The independent 'Making automatic enrolment work' (MAEW) review recommended that automatic enrolment should be linked with the point at which people reach the income tax threshold.

Tax relief on pension contributions is an important component of a pension pot. There are two methods of tax relief: relief at source (RAS) and net pay arrangements (NPA). Under RAS the employer deducts pension contributions from taxed pay and the scheme claims the tax relief direct from HMRC. Under NPA pension contributions are deducted from pay before tax.

Tax relief is available to non-tax payers in workplace pension schemes that use RAS. There is no avenue to claim the tax relief for non-tax payers in employment whose scheme uses NPA.

We considered all the review factors set against the policy objectives. Taking into account the evidence, the policy objectives and the outcome of the relatively recent consultation on the rates for the current tax year, our initial proposal was that the PAYE personal tax allowance is the factor that should determine the value of the trigger for 2013/14. It delivers the policy intentions. It facilitates:

- targeting;
- access to tax relief;

- a de minimis gap that produces contributions in pounds not pennies; and
- alignment with existing pay roll thresholds for simplicity.

In the consultation we presented the proposed 2013/14 PAYE threshold of £9,205. However, in the Chancellor's Autumn Statement on 5 December 2012 it was announced that the threshold would be £9,440.

Consultation questions

We asked whether there are other relevant factors that should be taken into account for the revision of the automatic enrolment earnings trigger. We also asked about early experience and whether alignment with existing payroll thresholds reduces complexity in practice and we asked for information about prevailing tax relief arrangements.

Responses to the consultation

Respondents did not raise any other factors to take into consideration when revising the automatic enrolment earnings trigger for 2013/14, apart from those that had already been identified. Many respondents supported the proposed trigger, in particular because saving may not always be appropriate for lowest earners.

However, several trade unions challenged the need for an earnings related trigger and called for it to be abolished or frozen at £8,105 on the grounds that a higher trigger excludes low earners and part timers (the majority of whom are women). They also raised concerns about the number of low-earners who will miss out if the trigger remains aligned to the PAYE threshold which the Government aims to increase to £10,000 during this parliament.

One respondent pointed out that low earners may benefit from being automatically enrolled if, for example, they have a higher earning partner and wish to start building up their own retirement provision or they are likely to have higher earnings in the future. There was also a call for workers below 22 and over state pension age to be automatically enrolled. Another respondent proposed linking the trigger to the National Insurance primary threshold, but given that the current earnings trigger is already higher than this they recommended that it should be frozen in 2013/14.

The majority of respondents agreed that alignment with existing payroll thresholds reduces complexity. As automatic enrolment had only been live for a month when the consultation closed they did not yet have extensive experience of how this is working in practice. However, the headline message was that alignment with existing thresholds made it intuitively simple for employers and workers to understand and explain automatic enrolment, encouraging high levels of compliance and acceptance of the regime.

Some employers reported that aligning with existing figures simplified their payroll processes, reducing the likelihood of an administrative error occurring, particularly in paper based systems or where workers have volatile earnings. This in turn helps to manage the administration of automatic enrolment and means that the Government's proposal for the trigger is consistent with the Red Tape Challenge. In particular, it was suggested that the introduction of a new pensions threshold which is not linked to National Insurance or PAYE thresholds would require a long lead time in order for it to be fully and automatically supported by payroll systems. Making changes at this early stage would, they believe, be confusing. However other respondents claimed that consistency with previous practice and/or other tax rules should be no more than a secondary consideration.

The challenges of business planning and the need for certainty continues to be a concern with several respondents calling for a consistent and predictable up-rating policy and asking for a long-term commitment to track existing thresholds. However, another respondent acknowledged that section 14 of the Pensions Act 2008 requires the Secretary of State to consider the thresholds in each tax year.

One respondent raised concerns that the revised earnings thresholds will result in a marked break in consistency across tax years in who should be enrolled and minimum levels of contributions.

Respondents reported that group personal pensions generally used relief at source (RAS) whilst occupational pensions tended to use net pay arrangements (NPA). Another respondent pointed out that NPA is more advantageous for higher rate tax payers.

Several respondents reported that some employers with low paid workers were using RAS schemes to enable them to benefit from tax relief on their contributions, with some predicting that more employers would move to RAS schemes as automatic enrolment is phased in. Others noted that tax relief on pensions is not the only factor that influences people's decision to save.

Government response

All respondents were strongly supportive of the aims of automatic enrolment to broaden access to workplace pensions and increase savings levels. However, there were differences of opinion as to how this can best be achieved.

The majority of respondents agreed with the Government's proposal to continue to align the automatic enrolment trigger with the PAYE threshold in 2013/14. We acknowledge that this agreement does not necessarily imply acceptance that the trigger should be aligned with the PAYE threshold in future years. This clearly demonstrates the importance of the mandatory annual review rather than a pre-determined strategy.

The independent 'Making automatic enrolment work' review concluded that very low paid people, in particular people who do not earn enough to pay income tax, should

not be automatically enrolled. This has equality implications as the majority of lower paid workers are women.

We have weighed the possible adverse effects of a higher trigger on this group against the risk that a lower trigger may bring some women into pension saving who would not benefit from postponing consumption from a period of low earnings to their retirement. The Government continues to pay close attention to this issue and we have set out in Annex B how a higher trigger will affect this group. Our overall assessment continues to be that those with lower earnings are less likely to benefit from pension saving than other groups. The trigger should target those who are most likely to benefit and allow those for whom it is less clear whether it will pay to save to opt in if saving is right for them.

Low earners and those aged under 22 or over the state pension age who do want to benefit from pensions savings will be able to opt in and will be entitled to an employer contribution if they have earnings above the qualifying earnings band lower limit.

We recognise that people earning on the margins of the trigger may be eligible in one financial year and not in another. This is an unavoidable effect of adjusting the earnings trigger. It is important that we have the flexibility to adjust the trigger on an annual basis to allow the policy to be appropriately targeted and to respond to changes in the economy.

Next year will be the second year of automatic enrolment during which companies with between 250 and 9,999 workers will go live. This is likely to be a challenging year as activity starts to peak, although full roll-out will take another five years. It makes sense to keep the trigger and qualifying earnings band aligned to existing thresholds at this early stage as payroll providers report they are already struggling to implement other changes necessary for automatic enrolment.

We asked about relief at source (RAS) and net pay arrangements (NPA) for tax relief on pensions contributions because we recognise that tax relief is available to non-tax payers in workplace pension schemes that use RAS but not those whose schemes use NPA. The consultation responses suggest that the majority of group personal pensions use RAS tax relief and that more schemes are moving towards this model. However, this small sample size can only offer us a snapshot. We are now building up a clearer picture of how the trigger interacts with tax relief arrangements and will be gathering wider evidence on this.

Having considered the consultation response, and weighed all the relevant factors, the Government's final proposal is that the automatic enrolment trigger for 2013/14 should be £9,440.

See Annex B for the equality analysis and Annex C for analysis of the costs, savings. A summary of the factors we considered and rejected both on the grounds that they are not relevant or do not best deliver the policy intention is at Annex D.

Review of the qualifying earnings band

What the consultation said – Lower Limit

Workplace pension saving is one of the building blocks for retirement income. Automatic enrolment with an employer contribution is intended to build on the foundation of state pension entitlement. The Pensions Commission originally set out the importance of this link between state and private pension savings. The MAEW review affirmed the principle and it remains central to the Government's policy.

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 per cent of a band of earnings are payable which must include at least 3 per cent from the employer.

In setting the band we also need to balance pension saving - the contributions that individuals will build up - with the impact on employer costs.

Both the Pensions Commission and the MAEW review proposed aligning the lower limit of the qualifying earnings band with the earnings threshold (Primary Threshold) for National Insurance contributions. This is the level at which individuals begin to pay national insurance contributions for the basic state pension. However, under current legislation state pension rights start to accrue at the National Insurance lower earnings limit (LEL).

We have also considered the relationship between the automatic enrolment trigger and the qualifying earnings band. The difference between the earnings level that triggers automatic enrolment and the minimum contributions threshold for money purchase schemes produces a de-minimis mechanism. This helps everyone who is automatically enrolled to pay contributions on a meaningful portion of their income.

For 2012/13 the de-minimis gap is £2,541, based on the trigger of £8,105 and the lower limit of the qualifying earnings band of £5,564; minimum overall contributions for someone earning just over the trigger would be around £4 a month. This figure assumes a minimum contribution of 1% matched. We want to maintain a de minimis gap that produces contributions in pounds not pennies and ideally around or above this level.

Taking into account the evidence, the policy objectives and the outcome of the relatively recent consultation on the rates for the current tax year, our initial proposal was that the National Insurance lower earnings limit is the factor that should determine the value of the bottom of the qualifying earnings band for 2013/14. It delivers the policy intentions:

- it targets people who are accruing state pension rights;
- it aligns with a recognisable pay roll threshold;
- allied to a trigger set at the level of the PAYE threshold it produces a de minimis gap; and

- it increases the overall minimum contribution from around £4 to around £6 a month.

Consultation questions

We asked whether there are other relevant factors that should be taken into account for the revision of the qualifying earnings band lower limit for 2013/14. We also asked whether alignment with the National Insurance lower earnings limit caused any problems.

Responses to the consultation on the qualifying earnings band – Lower Limit

The majority of respondents did not think there were other relevant factors that should be taken into account for the revision of the qualifying earnings band lower limit for 2013/14 and did not think it caused any problems. Many felt that the threshold was appropriate for targeting the employee population for whom pension saving will be beneficial. Several respondents commented that continuing to align the qualifying earnings band with National Insurance thresholds keeps it simple for employers to implement and employees to understand.

A minority of respondents argued that the lower limit should be frozen at the 2012/13 level or increased in line with inflation. They were concerned that the proposed increase in the qualifying earnings band lower limit would have a detrimental and disproportionate impact on lower earners whose wages are less likely to increase in line with average earnings.

One respondent also argued that there should be no qualifying earnings threshold and that contributions should be taken from the first pound of earnings. However this was countered by others who pointed out that to lower or remove the limit would greatly increase the strain on many employers at a time of weakness in the economic cycle.

Several respondents discussed the importance of the de minimis gap, acknowledging that maintaining a significant gap between the lower earnings limit and the trigger helps to ensure that contributions are meaningful.

Some of the responses asked whether a change in the trigger or the qualifying earnings band that would affect minimum contribution levels could trigger a consultation requirement under The Occupational and Personal Pension Schemes (Consultation by Employers and Miscellaneous Amendment) Regulations 2006. Another asked about the impact of a change in the qualifying earnings band on the three tiers of the alternative quality requirements under certification.

Government response

The proposition that we should abolish all thresholds and require contributions from the first pound of earnings was considered and rejected at an early stage in the policy development because it would place a large financial burden on employers. We have revisited the analysis on this. If employers were required to make contributions, for all jobholders, from pound one this is estimated to add around £130 million to their costs next year (2013/14) and around £1 billion per year in steady state (from 2019/20), under the Government's proposed package.

We agree that the de minimis gap continues to be relevant to ensure that contributions are made in pounds not pennies and to avoid an administrative effort by employers that is disproportionate to the amount of savings generated.

The continuing existence of a lower earnings limit in conjunction with a higher trigger is still an essential targeting tool to get the right people into automatic enrolment and ensure that contributions are based on a meaningful portion of their salary. Setting the qualifying earnings band lower limit at £5,668 means that even workers earning just over the automatic enrolment trigger of £9,440 will make pensions contributions based on a meaningful portion of their salary.

Based on the trigger of £9,440 and the lower limit of the qualifying earnings band of £5,668, the de minimis gap would be £3,772 for 2013/14; minimum overall contributions for someone earning just over the trigger would be around £6 a month.

The Government's view on whether or not a consultation requirement is triggered hinges on how the quality requirement in section 20 of the Pensions Act 2008 has been incorporated into scheme rules. Or, in the case of workplace personal pensions, how the agreements under sections 26(4) and 26(6) of the 2008 Act are phrased.

If scheme rules for example prescribe minimum contribution requirements in words that mirror or reference section 20 of the Act, or includes reference to qualifying earnings as defined by section 13 then an increase in contributions as a result of a change to section 13 would, on balance, seem to entitle the employer or the trustees/managers to use the exemption in regulation 10 of the Occupational and Personal Pension Schemes (Consultation by Employers and Miscellaneous Amendment) Regulations and there would be no consultation requirement. The same logic applies for the agreements under section 26(4) and 26(6) of the Pensions Act 2008 for workplace personal pensions. Any employer choosing to certify against the alternative quality requirement under one of the three tiers will not be affected as these requirements are linked to basic pay. But in any other circumstances it is likely the employer would have a consultation requirement.

Having considered the consultation responses, and weighed all the relevant factors, the Government's final proposal is that the qualifying earnings band lower limit should be aligned with the National Insurance Lower Earnings Limit in 2013/14 of £5,668.

A detailed analysis of the impact on costs and benefits is at Annex C. A summary of the factors we considered and rejected both on the grounds that they are not relevant or do not best deliver the policy intention is at Annex D.

What the consultation said – Upper limit

The upper limit of the qualifying earnings band caps mandatory employer contributions. It distinguishes the automatic enrolment target group of low to moderate earners from earners in a higher tax band who might reasonably be expected to have access to a pension scheme that offers more than the minimum and are more likely to make personal arrangements for additional saving.

The top of the qualifying earnings band is currently aligned with the National Insurance contributions Upper Earnings Limit (UEL). This is consistent with the original Pensions Commission's starting point and delivers the policy objectives.

The annual review of these thresholds is obligatory but the rates do not have to be revised. They may be increased or decreased or left unchanged. This introduces a more flexible approach which is where this review differs from traditional "up-rating" exercises.

Next year the National Insurance UEL is £41,450, a reduction of £1,025. Continuing alignment would reduce the qualifying earnings band and could have an impact on savings levels at the top end.

The Government now needs to decide whether continuing alignment with the UEL is the right way forward for the second year of automatic enrolment or whether the rate for next year should be increased in line with the rise in average earnings, £42,971, as proposed in the MAEW Review, or frozen at £42,475.

The logical corollary of freezing the upper limit is to freeze the lower limit as well to maintain the band of earnings but this loses the link with state pension accrual. It would also mean that the qualifying earnings band is disconnected from any recognisable payroll threshold.

Taking into account the make up of the target group, the policy objectives and the outcome of the relatively recent consultation on the rates for the current tax year our initial proposal was that the National Insurance upper earnings limit of £41,450 is the factor that should determine the top of the qualifying earnings band for 2013/14. In particular it delivers payroll alignment.

Consultation questions

We asked if the upper limit of the qualifying earnings band should be aligned with the National Insurance upper earnings limit for next year, £41,450; or frozen at this year's rate of £42,475; or increased by earnings in line with MAEW to £42,971. We also

asked if there any other factors that should be taken into account for the revision of the qualifying earnings band upper limit for 2013/14.

Responses to the consultation on the qualifying earnings band – Upper Limit

Over half of respondents wished to see the limit of the qualifying earnings band align with the National Insurance upper earnings limit (UEL) for 2013/14. Many agreed that the benefits of keeping the upper qualifying earnings limit aligned with a recognised National Insurance limit outweighs any disadvantage caused to workers by a reduction in the qualifying earnings band. The people affected by the drop in the upper limit are high earners who are not the primary target of automatic enrolment as they are likely to have alternative pension provision which goes beyond minimum scheme requirements anyway.

There were a few respondents who called for the current level to be frozen or increased in line with earnings. They were concerned that reducing the amount of earnings to which automatic enrolment applies would undermine the credibility of the policy as well the amounts being saved for retirement.

However, others pointed out that with combined contribution rates not set to rise above 2% on a band of earnings until 2017, a contraction in qualifying earnings would only lead to a very small reduction for a group of workers who mostly have private pension provision above the automatic enrolment minimum requirements anyway. As one respondent put it, “It seems hard to justify the complexity of a non aligned threshold for the sake of avoiding a £23 per year reduction in the nominal value of contributions for a subset of jobholders.”

Some respondents pointed out that because the consequences of inappropriate indexation for a few years are minor, the Government may wish to work on the basis that alignment with tax and NI thresholds should be maintained until all or most employers are brought into the system. Others suggested that in the medium to long term the UEL is likely to increase, so the impact on overall pension contributions made by individual workers will not be materially adverse. However, there were some who felt that simply maintaining a link to numbers used in the tax and NI systems would not deliver long term policy objectives.

Many respondents emphasised that they would not want to see a continual shrinking of the qualifying earnings band over time as this would undermine the message that people need to increase their savings from the initial low minimum level. Instead it should rise steadily over time to increase the proportion of earnings covered by automatic enrolment. Indeed one respondent hoped that the policy intention is to increase the required employer contributions over time to a level closer to the NAPF Pensions Quality Mark (for 85% of total earnings to be pensionable).

Respondents also signalled they would welcome an indication of the Government's intentions for future years and that any departure from alignment with UEL should be signalled with plenty of warning. One respondent commented that the confusion over the s20/s26 pay reference periods underlines the importance of clear explanations and long lead times.

Government response

The qualifying earnings band is designed to set minimum pension contributions, not maximum savings levels. Employers who wish to offer contributions from pound one and/or above the qualifying earnings band upper limit can do so, provided the amounts paid are at least equal to the minimum requirements. It is also important to emphasise that private pensions are just one of the building blocks to saving for retirement alongside the state pension and other savings products.

We estimate that there are around 167,000 people between 22 and state pension age in the private sector who earn between £41,450 and £42,475. Of these around 100,000 (60 per cent, of which 73 per cent are men) are already members of a workplace pension scheme. This 60 per cent membership ratio is around double the membership level for private sector workplace schemes as a whole. Employee membership of private sector workplace pension schemes stood at 33 per cent in 2011 (Source: Annual Survey of Hours and Earnings, Office for National Statistics).

A reduction in the upper limit of £1,025 would reduce minimum monthly pension savings by around £1.70, but for a group largely well catered for with earnings significantly above the average.

This reduction would have the same marginal effect on contributions for those people earning above £42,475 as it would on people earning between £41,450 and £42,475. Most people at these salary levels are already members of a workplace pension scheme and both they and their employer are likely to be paying more than the minimum contribution already.

The changes in the National Insurance upper earnings limit (UEL) clearly demonstrate the need for annual reviews to ensure that the qualifying earnings band continues to deliver the policy objectives for automatic enrolment.

Relevant and useful issues were raised about the operation of pay reference periods and the Government is keeping these in view.

Having considered the consultation response, and weighed all the relevant factors, the Government's final proposal is that we should continue to align the qualifying earnings band upper limit with the National Insurance UEL in 2013/14 of £41,450.

A detailed analysis of the impact on costs and benefits is at Annex C. A summary of the factors we considered and rejected both on the grounds that they are not relevant or do not best deliver the policy intention is at Annex D.

Government proposals for 2013/14 automatic enrolment earnings trigger and qualifying earnings band

We propose to lay a draft Revision Order before Parliament in the New Year which specifies the following rates:

- £9,440 for the automatic enrolment earnings trigger;
- £5,668 for the lower limit of the qualifying earnings band;
- £41,450 for the upper limit of the qualifying earnings band.

The Order will require approval from both Houses before the regulations can be made. The intended coming into force date is 6th April 2013.

An analysis of the costs and benefits are in Annex C.

The equality implications of changes to the earnings trigger are described in Annex B.

Annex A: Review factors specified in Section 14 of the Pensions Act 2008

The factors that the Secretary of State may take into account for the annual review are in section 14 of the Pensions Act 2008. 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 other factors that the Secretary of State thinks relevant. This year we have considered a no-change option to freeze the qualifying earnings band at 2012/13 levels.

Annex B: Equality implications of changes to the earnings trigger

We estimate that there are 11 million workers eligible for automatic enrolment (the "eligible group") of whom just under two in five (37 per cent) are women.

Raising the 2013/14 value of the automatic enrolment trigger from £8,105 to £9,440 excludes around 420,000 individuals, of whom 320,000 (76 per cent) are women.

This result is consistent with the experience of previous years. 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.

(Note: Raising the 2012/13 value of the automatic enrolment trigger from £7,475 to £8,105 excluded around 100,000 people, 82 per cent of whom 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 individuals, 78 per cent of whom are women. However the precise percentages involved are not directly comparable with the 2013/14 estimates that are based on updated information on the pensions landscape, prices and earnings.)

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 these opt in rights.

The latest evidence suggests that the proportion of black and minority ethnic groups (BME) in the eligible group would remain broadly the same at 8 per cent with a trigger set at £9,440.

The latest evidence also suggests that revising the earnings trigger to £9,440 would not particularly affect people with a disability. It is estimated that workers with a disability will comprise 14 per cent of the revised eligible group.

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 proposed for the 2013/14 review are not expected to particularly affect individuals according to their sexual orientation, religion or belief.

Annex C: Costs and benefits of final proposals

Table 1: Estimates of the impact of changing the earnings trigger and upper and lower limits of the qualifying earnings band on employers, individuals and Government (£ million, in 2013/14)

	Earnings Trigger	Qualifying Earnings Band - Lower Limit	Qualifying Earnings Band - Upper Limit	Employer Contributions	Individual Contributions	Individual Tax Relief	Level of Pension saving	Employer Tax Relief
Baseline	£8,105 (2012/13 PAYE threshold and current trigger)	£5,564 (2012/13 National Insurance Lower Earnings Limit and current qualifying earnings band lower limit)	£42,475 (2012/13 Upper Earnings Limit and current qualifying earnings band upper limit)	£383m	£292m	£86m	£761m	£14m
Proposal	£9,440 (Announced PAYE threshold for 2013/14)	£5,668 (Announced 2013/14 National Insurance Lower Earnings Limit)	£41,450 (Announced National Insurance Upper Earnings Limit for 2013/14)	£376m	£287m	£84m	£748m	£14m
Difference	-	-	-	- £6.4m	- £5.0m	- £1.5m	- £12.9m	- £0.2m

Notes:

Source: DWP Modelling.

Estimates are expressed in 2012/13 earnings terms.

Figures have been rounded to the nearest £1 million and £100,000, as appropriate, and therefore may not sum exactly in all cases.

Pension saving is the sum of tax relief, employer contribution and individual contribution costs.

This table has been updated to reflect new information released since the consultation.

The value of the 2013/14 National Insurance Lower Earnings Limit, of £5,668, is similar to a price inflation (CPI) increase.

Annex D: Review factors considered and rejected for the revision of automatic enrolment thresholds

The statutory power to review the automatic enrolment thresholds deliberately provides for a significant degree of flexibility. This allows Government to set appropriate figures for each year and to react to changing priorities and economic circumstances.

The review may take into account the general level of prices, earnings, personal income tax PAYE threshold, and National Insurance contributions thresholds, the prevailing rate of state pensions, and any other relevant factors.

Following our analysis of the consultation responses, we have revisited the review factors and reconsidered our initial proposals. We rejected factors for a range of reasons:

- not relevant to the particular threshold under review;
- relevant but so similar that we consider they should be subsumed by other factors;
- relevant but bring further complexity into the system for the first year of live running;
- relevant but failed to deliver a policy objective.

Table 2: Review factors considered and rejected for the revaluation of the automatic enrolment earnings trigger

Value 2013/14	Factor	Reason excluded / rejected
£41,450	NICs UEL	Too high to be a savings entry point. A figure of this order is more appropriate as a cap not a threshold.
£8,332	Price inflation	Relevant but rejected. May not provide access to tax relief. Does not align with a recognisable payroll threshold

Value 2013/14	Factor	Reason excluded / rejected
£8,200	Earnings inflation	Relevant but rejected. May not provide access to tax relief. Does not align.
£7,755	National Insurance contributions primary threshold 2013/14	Relevant but rejected. May not provide access to tax relief. Does not align. State pensions accruals start at the lower NICs LEL with credited contributions.
£5,728	Rate of basic state pension in payment 2013/14 (calculated by multiplying weekly rate of £110.15 by 52)	Relevant but rejected. De minimis not achieved at this figure. Does not align. May not provide access to tax relief.
£5,668	National Insurance contributions lower earnings limit	Relevant but rejected. De minimis not achieved at this figure. Does not align. May not provide access to tax relief.

Table 3: Review factors considered and rejected for the revaluation of the qualifying earnings band lower limit.

Value 2013/14	Factor	Reason excluded / rejected
£41,450	National Insurance contributions upper earnings limit	Excluded as not relevant. Too high to be a contributions threshold; cap not a threshold.

Value 2013/14	Factor	Reason excluded / rejected
£9,440	PAYE threshold	Relevant but rejected. Too high to be a contributions threshold. Reduces savings levels. Would not provide for a de minimis.
£7,755	National Insurance primary threshold	Relevant but rejected. Halves overall minimum contributions to around £2 a month.
£5,728	Rate of basic state pension in payment 2013/14 (calculated by multiplying weekly rate of £110.15 by 52)	Relevant but rejected. Does not align with a recognisable payroll threshold. Similar value to preferred factor NICs LEL.
£5,629	Earnings inflation	Relevant but rejected. Does not align with a recognisable payroll threshold. Similar value to preferred factor NICs LEL.

Table 4: Review factors considered and rejected for the revaluation of the qualifying earnings band upper limit. Alternative factors that are relevant as a revaluation measure and on which we sought views.

Value 2013/14	Factor	
£43,664	(Projected) price inflation	Captures higher earners in 40% tax band and so extends reach of mandatory employer contribution. Would produce a non-aligned payroll figure.

Value 2013/14	Factor	
£42,475	2012/13 rate	Current rates (frozen); avoids a reduction in the top of the qualifying earnings band. Would produce a non-aligned payroll figure.
£42,971	(projected) Earnings inflation	Captures higher earners in 40% tax band and so extends reach of mandatory employer contribution. Would produce a non-aligned payroll figure. BUT: In line with the MAEW recommendation.

Table 5: Factors excluded as not relevant to upper limit of the qualifying earnings band

Value 2013/14	Factor	
£9,440	PAYE threshold	Excluded as not relevant. Too low to be a contributions cap.
£7,755	National Insurance primary threshold	Excluded as not relevant. Too low to be a contributions cap.
£5,728	Rate of basic state pension in payment 2013/14 (calculated by multiplying weekly rate of £110.15 by 52)	Excluded as not relevant. Too low to be a contributions cap.
£5,668	NICs LEL	Excluded as not relevant. Too low to be a contributions cap.

Annex E: Respondents

ABI

ACA

Age UK

Aviva

Capita

Compass

GMB

Hargreaves Lansdown

HSBC

Hymans Robertson

ICEAW

Jaguar Landrover

Legal and General

NAPF

Pensions Advisory Service

Pensions Management Institute

Scottish Qualifications Authority

Scottish Widows

Society of Pension Consultants (SPC)

Standard Life

The Pensions Advisory Service

Towers Watson

TUC

UNISON

Annex F: 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 contributions 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 contributions upper earnings limit (UEL) Where earnings exceed the UEL the employee pays National Insurance contributions at 2per cent 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 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 8per cent (of which at least 3per cent must be from the employer).

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