Automatic enrolment earnings thresholds review and revision 2013 / 2014

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

September 2012

Department for Work and Pensions

Contents

About this consultation

Purpose of the consultation

This consultation is for the automatic enrolment thresholds for 2013 / 2014. The document sets out the revision factors that the Secretary of State may take into account in the annual review of the automatic enrolment earnings trigger and the qualifying earnings band; the Government's approach; the evidence base and the proposed rates for 2013 /2014. We are seeking views both on the factors that should inform the review and the proposed rates. This document is available on the Department's website at:
http://dwp.gov.uk/consultations/2012/ae-thresholds-2013-2014.shtml

Who this consultation is aimed at

The 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.

Scope of consultation

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 6 September 2012 and runs until 17 October 2012.

How to respond to this consultation

Please send your response, preferably by e-mail to:

workplacepensionreform.consultation@dwp.gsi.gov.uk

Or by post to:

Jane Stewart
Department for Work and Pensions
Enabling Retirement Savings Programme
1st Floor
Caxton House
London SW1H 9NA

Please ensure your response reaches us by **17 October 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 an 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.

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 purposes 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 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.

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
4th Floor
Caxton House
Tothill Street
London
SW1H 9NA

Freedom-of-information-request@dwp.gsi.gov.uk

The Central FoI team cannot advise on specific consultation exercises, only on Freedom of Information issues. More information about the Freedom of Information Act can be found at www.dwp.gov.uk/freedom-of-information

Consultation principles

This consultation is being conducted in line with the new Cabinet Office Consultation Principles. The key principles are:

- departments will follow a range of timescales rather than defaulting to a 12-week period, particularly where extensive engagement has occurred before;

- departments will need to give more thought to how they engage with and consult with those who are affected;
- consultation should be 'digital by default', but other forms should be used where these are needed to reach the groups affected by a policy; and
- the principles of the Compact between government and the voluntary and community sector will continue to be respected.

Feedback on the consultation process

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:

Elias Koufou
DWP Consultation Coordinator
2nd Floor
Caxton House
Tothill Street
London
SW1H 9NA

Phone 020 7449 7439

elias.koufou@dwp.gsi.gov.uk

In particular, please tell us if you feel that the consultation does not satisfy the consultation criteria. 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.

We will aim to publish the Government response to the consultation on http://www.dwp.gov.uk/consultations

The report will summarise the responses. Following the Secretary of State's review, any revised thresholds will be set by Affirmative Order.

Context for the review

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, inflation and any other factors that the Secretary of State considers appropriate. [See Annex A]

Automatic enrolment started to go live this year. Implementation will be staged over four years. By March 2013 all employers with 10,000 workers or more will be staged in. Companies with a payroll of 250 or more will have their staging date in 2013/14.

The Government consulted on the figures for this first year of automatic enrolment to test the approach to the annual review, the relevant revision factors for each threshold and the balance between targeting, administrative simplicity and employer costs. That first consultation was invaluable. It demonstrated where respondents felt that balance lay and the issues for employers, individuals and the pensions industry. The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2012 prescribes the rates for the 2012/13.

The Government is now reviewing the current thresholds in readiness for next year. If changes are made, these will come into effect on 6 April 2013. However, in order for as much of the process as possible to be automated, software providers will need advance notice of the Government's intentions in relation to the new rates.

We therefore propose to respond to this consultation in November, around the time of the Autumn Statement. While it may be too early to learn as much as we would like from the first experiences of preparation and live running, we believe that it is important to seek views on the experience and knowledge gained so far and to examine the different issues that arise this year. Decisions about the appropriateness of consulting on the proposed thresholds in future will be made each year, on merit.

Policy principles and approach

In developing proposals for the 2012/ 2013 rates we identified three principles that we considered are of primary importance in setting the automatic enrolment thresholds. These were endorsed by stakeholders responding to the first consultation and we believe that these principles are still of primary relevance.

(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?** 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?** The cost implications of the thresholds remain very relevant given the even tougher economic times that businesses are currently operating in. We also need to factor in the continuing importance of simplicity. Alignment with recognisable tax and NICs thresholds is critical to simplifying system build, providing compatibility with existing payroll systems and making automatic enrolment as easy as possible to administer and explain.

We considered each of these principles alongside an assessment of the relevance of each of the review factors set out in the Pensions Act 2008.

The analysis in this document presents costs, savings levels and demographic effects for 2013/14 to give a more relevant assessment of the impact for next year rather than steady state. The analysis is based on projected values using the latest ONS data (CPI or AWE) where the actual figures for 2013/14 are not yet available

Review 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 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. Set it too low and people for whom it makes little sense to save for retirement because they probably cannot afford to save and are very likely to receive a high replacement rate from the state, may be driven to 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 of whom the majority 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. It concluded that very low paid people, in particular people who do not earn enough to pay income tax, should not be automatically enrolled.

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.

The choice of arrangement is a matter for each scheme. For historical reasons trust-based occupational pensions schemes largely use NPA, although there are exceptions, notably NEST. 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 schemes use net pay arrangements.

Tax relief is the Government's contribution to individuals' pension saving and as such is a key benefit of workplace pension saving. The PAYE threshold becomes a relevant factor in determining not just who should save, but whether the Government makes a contribution. Ideally we want to automatically enrol people who will benefit from tax relief.

Automatic enrolment is not happening in a vacuum. The policy should support our moves to address the problems of small pension pots and maximise savings. Automatic enrolment should result in contributions of pounds rather than pennies to help make this happen.

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 opinion is 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 deminimis gap that produces contributions in pounds not pennies;
- alignment with existing pay roll thresholds for simplicity.

See Annex B for a detailed analysis of the costs, savings and demographic effects and Annex C for the equality analysis.

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.

Consultation questions

Q1: Are there any other factors that should be taken into account for the revision of the automatic enrolment trigger for 2013/14? If so please explain why.

Q2: Is it your experience so far that alignment with an existing payroll threshold reduces complexity. Please explain why and what problems alignment has helped address.

Q3: What pensions tax relief arrangement do you (or your clients) use and why?

Review of the qualifying earnings band

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 our 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 with at least 3 per cent from an employer contribution.

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 during the first phasing profile of 1% matched. We want to maintain a deminimis 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 opinion is 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 deminimis gap;
- it increases the overall minimum contribution from around £4 to around £6 a month.

A detailed analysis of the impact on costs and benefits is at Annex B.

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.

Consultation questions

Q4: Are there any other factors that should be taken into account for the revision of the qualifying earnings band lower limit for 201314? If so please explain why.

Q5: Has alignment with the National Insurance lower earnings limit caused any problems? If so please explain.

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 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 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 "uprating" 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.

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 and at these salary levels this group is likely to be paying more than the minimum already.

This 60 per cent membership ratio is around double membership of private sector workplace schemes as a whole. Employee membership of private sector workplace pension schemes stood at 33 per cent in 2011. Source ONS and ASHE data

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.

A reduction in the upper limit 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. Again, at these salary levels, we assume that people earnings above £42,474 are already members of a workplace pension scheme and likely to be paying more than the minimum already.

The Government now needs to decide whether continuing alignment with the National insurance upper limit is the right way forward for the second year of automatic enrolment (when medium sized-companies will be going live) or whether the rate for next year should be frozen at £42,475.

The logical corollary of this alternative option 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 thresholds.

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 provisional view is that the National Insurance upper earnings limit at its (projected) 2013/14 value of £41,450 is the factor that should determine the top of the qualifying earnings band. In particular it delivers the prize of payroll alignment.

However, another way to avoid a reduction in the value of the upper limit is to raise the upper limit in line with earnings inflation which was the original proposition from the MAEW review. This would produce a value of £42, 971.

A detailed analysis of the impact on costs and benefits is at Annex B.

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.

Consultation questions

Q6: Should the upper limit of the qualifying earnings band 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?

Q7. Are there any other factors that should be taken into account for the revision of the qualifying earnings band upper limit for 2013/14? If so please explain why.

Emerging proposals for 2013/14

Our provisional view is that the evidence points to the following figures for the 2013/14 tax year:

- £9,205 for the automatic enrolment earnings trigger to align with the PAYE threshold;
- Around £5,720 (projected value) for the lower limit of the qualifying earnings band to align with the NICs LEL;
- £41,450 for the upper limit of the qualifying earnings band to align with the NICs UEL. However, maintaining this year’s value (£42,475) for next year, or uprating by earnings to £42,971 would also be possible options and we are particularly interested in views on the preferable policy.

Annex A: Review factors specified in Section 8 of the Pensions Act 2008

The factors that the Secretary of State may take into account for the annual review are in section 8 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: Analysis of costs, savings and demographic effects

Table B1: Estimates of the impact of changing the earnings trigger on employers, individuals and Government (£ million, in 2013/14)

Earnings Trigger (in 2013/14 terms)	Factor	Demographic Effects	Employer Contributions	Individual Contributions	Individual Tax Relief	Level of Pension Saving	Employer Tax Relief
£8,105	PAYE threshold 2012/13 and current trigger	Eligible Group: 11 million Women - 37% BME - 8% Disabled - 14%	£380m	£290m	£90m	£760m	£10m
£9,205	(Announced) PAYE threshold for 2013/14	Excluded group: (0.34m) Women - 75%	(£2m)	(£2m)	(£0m)	(£4m)	(£0m)
£8,332	Estimated price inflation (CPI)	Excluded group: (0.08m) Women - 73%	(£0m)	(£0m)	(£0m)	(£0m)	(£0m)
£8,200	Estimated earnings inflation (AWE)	Excluded group: (0.03m) Women - 73%	(£0m)	(£0m)	(£0m)	(£0m)	(£0m)
£7,818	Estimated National Insurance contributions Primary Threshold	Newly included group: (0.09m)	£0m	£0m	£0m	£1m	£0m
£5,744	Estimated rate of basic State Pension	Newly included group: (0.91m)	£1m	£1m	£0m	£2m	£0m

See next page for notes on this table

Notes:

Source: DWP Modelling.

The lower and upper limits of the qualifying earnings band are held constant at £5,564 and £42,475 respectively.

Figures are expressed in 2012/13 earnings terms.

Figures are rounded to the nearest £10 million and £1 million, as appropriate.

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

Scenarios after the baseline present the change in costs and accompanying demographic effects as compared to the baseline.

Demographic effects for women estimated from the Annual Survey of Hours and Earnings and from the ONS Labour Force Survey for ethnicity and disability.

Table B2: Estimates of the impact of changing the lower limit of the qualifying earnings band on employers, individuals and Government (£ million, in 2013/14)

Bottom of the QEB (in 2013/14 terms)	Factor	Employer Contributions	Individual Contributions	Individual Tax Relief	Level of Pension Saving	Employer Tax Relief
£5,564	2012/13 National Insurance Lower Earnings Limit (LEL) and current qualifying earnings band lower limit	£380m	£290m	£90m	£760m	£10m
£5,629	Estimated earnings inflation (AWE)	(£1m)	(£1m)	(£0m)	(£3m)	(£0m)
£5,720	Estimated National Insurance contributions Lower Earnings Limit (LEL) NOTE: Same as price inflation (CPI)	(£4m)	(£3m)	(£1m)	(£7m)	(£0m)
£5,744	Estimated rate of basic State Pension	(£4m)	(£3m)	(£1m)	(£8m)	(£0m)
£7,818	Estimated National Insurance contributions Primary Threshold	(£50m)	(£40m)	(£10m)	(£100m)	(£2m)

Notes:

Source: DWP Modelling.

The earnings trigger and the upper limit of the qualifying earnings band are held constant at £8,105 and £42,475 respectively.

Figures are expressed in 2012/13 earnings terms.

Figures are rounded to the nearest £10 million and £1 million, as appropriate.

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

Scenarios after the baseline present the change in costs and accompanying demographic effects as compared to the baseline.

Table B3: Estimates of the impact of changing the upper limit of the qualifying earnings band on employers, individuals and Government (£ million, in 2013/14)

Upper limit of the QEB (in 2013/14 terms)	Factor	Employer Contributions	Individual Contributions	Individual Tax Relief	Level of Pension Saving	Employer Tax Relief
£42,475	2012/13 National Insurance Upper Earnings Limit (UEL) and current qualifying earnings band upper limit	£380m	£290m	£90m	£760m	£10m
£41,450	(Announced) NICs UEL for 2013/14	(£2m)	(£1m)	(£0m)	(£4m)	(£0m)
£42,971	Estimated earnings inflation (AWE)	£1m	£1m	£0m	£2m	£0m
£43,664	Estimated price inflation (CPI)	£2m	£2m	£1m	£4m	£0m

Notes:

Source: DWP Modelling.

The earnings trigger and the lower limit of the qualifying earnings band are held constant at £8,105 and £5,564 respectively.

Figures are expressed in 2012/13 earnings terms and rounded to the nearest £10 million and £1 million, as appropriate.

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

Scenarios after the baseline present the change in costs and accompanying demographic effects as compared to the baseline.

Annex C – Equality implications of change in 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 £9,205 excludes around 340,000 individuals, of whom 260,000 (75 per cent) are women.

These proportions are broadly consistent with the previous picture. 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. These figures are not directly comparable with the 2013/14 estimates that are based on updated information on the pensions landscape, prices and earnings.

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.

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 £9,205.

The latest evidence also suggests that revising the earnings trigger to £9,205 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 under consideration for the 2013/14 review are not expected to particularly affect individuals according to their sexual orientation, religion or belief.

Annex D: Summary of review factors considered and excluded or rejected

Automatic enrolment earnings trigger

Table D1

Value 2013/14	Factor	Reason excluded / rejected
£41,450	NICs UEL	Excluded as not relevant. Too high to be a savings entry point
£8,332	Price inflation	Relevant but rejected. May not provide access to tax relief. Does not align with a recognisable payroll threshold
£8,200	Earnings inflation	Relevant but rejected. May not provide access to tax relief. Does not align
£7,818	(Projected) 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.
£5,744	(Projected) Rate of basic state pension in payment	Relevant but rejected. De-minimis not achieved at this figure. Does not align May not provide access to tax relief.
£5,720	(Projected) 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.

Qualifying earnings band lower limit

Table D2

Value 2013/14	Factor	Reason excluded / rejected
£41,450	(Projected) National Insurance contributions upper earnings limit	Excluded as not relevant. Too high to be a contributions threshold; cap not a threshold.
£9,205	PAYE threshold	Relevant but rejected. Too high to be a contributions threshold. Reduces savings levels. Would not provide for a de-minimis
£7,818	(Projected) National Insurance primary threshold	Relevant but rejected. Halves overall minimum contributions to around £2 a month
£5,744	(Projected) Basic state pension in payment	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

Qualifying earnings band upper limit

Table D3: Alternative factors that are relevant as a revaluation measure and on which we seek 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.
£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 D4: Factors excluded as not relevant to upper limit of the qualifying earnings band

Value 2013/14	Factor	
£9,205	PAYE threshold	Excluded as not relevant. Too low to be a contributions cap
£7,818	(Projected) National Insurance primary threshold	Excluded as not relevant. Too low to be a contributions cap
£5,774	(Projected) rate of basic state pension in payment	Excluded as not relevant. Too low to be a contributions cap
£5,720	(Projected) NICs LEL	Excluded as not relevant. Too low to be a contributions cap

Annex E : Consultation questions

Automatic enrolment trigger

Q1: Are there any other factors that should be taken into account for the revision of the automatic enrolment trigger for 2013/14? If so please explain why.

Q2: Is it your experience so far that alignment with an existing payroll threshold reduces complexity. Please explain why and what problems alignment has helped address.

Pensions tax relief

Q3: What pensions tax relief arrangement do you (or your clients) use and why?

Qualifying earnings band lower limit

Q4: Are there any other factors that should be taken into account for the revision of the qualifying earnings band lower limit for 201314? If so please explain why.

Q5: Has alignment with the National Insurance lower earnings limit caused any problems? If so please explain.

Qualifying earnings band upper limit

Q6: Should the upper limit of the qualifying earnings band 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?

Q7. Are there any other factors that should be taken into account for the revision of the qualifying earnings band upper limit for 2013/14? If so please explain why.

Annex F: Glossary of terms

Average weekly earnings (AWE)

ONS measure of short term earnings growth

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)

CPI measures consumer inflation with reference to the changing cost of a fixed basket of goods and services.

National Insurance Lower Earnings Limit (LEL)

LEL is the point at which workers start to build up entitlement to contributory benefits. It is fixed each year by regulations.

National Insurance primary threshold (PT)

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 per cent on those earnings above the UEL.

Pay As You Earn (PAYE)

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.

Qualifying earnings

An earnings band comprising 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 per cent of qualifying earnings (of which at least 3 per cent must be from the employer).

ISBN 978-1-78153-149-5