

Workplace Pension Reform: Earnings Characteristics of the Eligible and Target Groups

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Introduction

Workplace pensions reform, as set out in the Pensions Act 2008, will oblige employers to automatically enrol eligible employees into a pension. An employee will be eligible for automatic enrolment if they are aged at least 22 and under state pension age, and earn over £5,035 (in 2006 price terms). The [Making Automatic Enrolment Work \(MAEW\) Review](#), published in November 2010, recommended some amendments to this legislation, including aligning the earnings threshold for automatic enrolment with the threshold for income tax (£7,475 in 2011 earnings terms), and introducing an optional three month waiting period for employers.

To support the automatic enrolment policy, the National Employment Savings Trust (NEST) has been created. NEST is a trust-based, occupational pension scheme, designed to support automatic enrolment by providing suitable low-cost pension provision for people on low to moderate earnings and their employers. NEST will be just one of many qualifying pension schemes but it will be obliged to accept any employer who wishes to use it to meet their new duty.

This publication provides further information on the eligible group for automatic enrolment, and the target group that NEST is intended to serve.

Methodology

The statistics presented here are produced from the Annual Survey of Hours and Earnings (ASHE), conducted by the Office for National Statistics (ONS).¹ ASHE takes a one percent sample of employee jobs from the HM Revenue & Customs (HMRC) PAYE records, and asks employers to provide information. Information on earnings and hours is obtained from employers and treated confidentially. Samples are taken from April 2007, 2008, and 2009. Results are then weighted to the Labour Force Survey (LFS), to provide estimates for the population of United Kingdom. Weighting to the LFS is consistent with the ONS methodology when publishing ASHE analysis.

The analysis is restricted to two groups: those employees eligible for automatic enrolment (“eligible group”) and those eligible for automatic enrolment who are not already saving in a qualifying workplace pension (“target group”). By definition, all individuals in the target group must also be eligible; however, eligible individuals are not necessarily also in the target group. The definitions for each group in the analysis are set out below.

¹ For more details on ASHE methodology, see the ONS documents here: <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1951>.

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Eligible Group: covers individuals in employment who are aged at least 22 and under state pension age², and earn over £7,475³ per year, in 2010/11 earnings terms.

Target Group: covers eligible individuals, who are either (i) not saving in a pension scheme; or (ii) saving in a pension scheme where the employer contributes less than 3% of the individual's salary in pension contributions, and is not a defined-benefit (DB) scheme⁴.

The results present information on earnings for both the eligible and target groups of employees, based on analysis of the 2009 ASHE data. Results relate to the private and not-for-profit sectors to maintain consistency with the Pensions Bill 2011 impact assessment.

Results

Table (1): Proportion of eligible and target population earning within 5 pence of the national minimum wage, ASHE April 2007-2009.

	Men	Women	Total	<i>n (weighted)</i>
	%	%	%	
Eligible Population				
2007	1.6-1.9	3.1-3.5	2.2-2.4	14,005,000
2008	1.5-1.7	2.8-3.2	2.0-2.2	14,003,800
2009	1.8-2.0	2.9-3.2	2.2-2.4	13,493,500
Target Population				
2007	2.8-3.2	5.0-5.7	3.7-4.1	7,686,400
2008	2.5-2.9	4.5-5.1	3.4-3.7	7,900,900
2009	3.0-3.4	4.5-5.1	3.7-4.0	7,891,500

² Here state pension age is defined as it was in 2007, where men reached state pension age on their 65th birthday, and women reached state pension age on turning 60. When automatic-enrolment begins in 2012, the state pension age of women will be slightly higher, due to the equalization of state pension age.

³ This threshold is then converted into each year's earnings terms, which are £6,782 in 2007, £7,071 in 2008, and £7,196 in 2009.

⁴ The Pensions Bill 2011 Impact Assessment includes estimates of the impact of the reforms on the number of people saving in a workplace pension scheme. In these estimates the target group is described as those eligible for automatic enrolment, estimated to be between 9 and 10 million individuals in 2012. See <http://www.dwp.gov.uk/docs/pensions-bill-2011-ia-annexb.pdf>

Table (2): Proportion of eligible and target group earning within 50 pence of the national minimum wage, ASHE April 2007-2009

	Men %	Women %	Total %	<i>n (weighted)</i>
Eligible Population				
2007	4.4-4.8	9.2-9.8	6.3-6.6	14,005,000
2008	4.4-4.8	9.0-9.6	6.2-6.5	14,003,800
2009	4.5-4.9	9.3-9.9	6.4-6.7	13,493,500
Target Population				
2007	7.3-7.9	13.7-14.7	9.9-10.5	7,686,400
2008	7.2-7.9	13.3-14.3	9.7-10.3	7,900,900
2009	7.3-7.9	13.4-14.4	9.8-10.3	7,891,500

Notes for Tables (1) and (2):

- 1) Figures relate to Great Britain employee jobs, for those aged 22 or older.
- 2) To align with analysis by the Low Pay Commission, individuals are counted as earning the minimum wage where they earn within five pence of the minimum wage, which in 2009 was £5.73 per hour.⁵ Table (2) presents data for individuals earning within 50 pence of the minimum wage, to provide additional information on the number of low paid workers who fall into the eligible and target groups.
- 3) Percentages are rounded to 1 decimal place; numbers of observations to nearest hundred.
- 4) Ranges on estimates represent 95% confidence intervals around the mean.
- 5) Analysis is restricted to the private sector and not-for-profit sectors.

⁵ The Low Pay Commission report into the national minimum wage, from which this threshold was obtained, can be found at http://www.lowpay.gov.uk/lowpay/report/pdf/LPC_Report_2010.PDF.

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Table (3): Median gross annual earnings by sex for private sector, the eligible target group, and the eligible non-target group, ASHE April 2007-2009.

	Male	Female	Overall	<i>n (weighted)</i>
Private sector population				
2007	£25,100	£15,000	£20,700	15,694,600
2008	£26,200	£15,600	£21,600	15,750,000
2009	£26,200	£15,800	£21,700	15,275,700
Eligible target population				
2007	£21,400	£15,000	£18,800	7,686,400
2008	£22,300	£15,800	£19,600	7,900,900
2009	£22,500	£16,000	£19,800	7,891,500
Eligible non-target population				
2007	£32,000	£21,300	£28,200	6,318,500
2008	£33,800	£22,700	£30,000	6,103,000
2009	£34,300	£23,900	£30,600	5,602,100

Table (4): Median gross annual earnings by age for private sector, the eligible target group, and the eligible non-target group, ASHE April 2007-2009.

	22-29	30-39	40-49	50-59	60-64	<i>n</i> (weighted)
Private sector population						
2007	£17,600	£21,200	£22,900	£20,300	£17,400	15,694,600
2008	£18,200	£24,300	£23,900	£21,400	£18,400	15,750,000
2009	£18,200	£24,200	£24,200	£21,400	£18,300	15,275,700
Eligible target population						
2007	£17,200	£20,500	£19,800	£18,000	£20,100	7,686,400
2008	£18,000	£21,500	£20,300	£18,500	£21,000	7,900,900
2009	£18,000	£21,700	£20,900	£18,800	£20,800	7,891,500
Eligible non-target population						
2007	£23,000	£30,000	£30,000	£27,100	£26,800	6,318,500
2008	£24,700	£31,900	£31,800	£28,700	£28,900	6,103,000
2009	£25,300	£32,300	£32,700	£29,500	£29,200	5,602,100

Notes for Tables (3) and (4):

- 1) Figures relate to Great Britain.
- 2) Private sector figures are for all private sector individuals in employment, aged at least 22.
- 3) The private sector figures here are included to provide context for the target population figures. Please note that the median earnings differ from figures published by the ONS. ONS figures include employees whose pay is affected by absence, exclude those who have not worked the full year, and cover all those aged 16 and over.
- 4) Analysis is restricted to the private sector and not-for-profit sectors
- 5) Figures are rounded to the nearest hundred, with incomes expressed in nominal terms.
- 6) Median annual earnings are based on records of weekly earnings, which are then converted to annual earnings. They are not adjusted to include the effects of part time work, or short spells in employment.

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- 7) Figures for number of jobs are for indicative purposes only, and should not be considered an accurate estimate of employee job counts.