Automatic enrolment earnings thresholds review and revision 2015/16

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

December 2014

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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 the outcome 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 37 formal written responses to the consultation on this year’s amounts from employer organisations, pension providers, accountants, independent financial advisers, lawyers, actuaries, 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 this year. The challenge is, as in previous years, balancing coverage, pension savings and employer costs.

Responses to the earnings trigger aspects of the consultation were split fairly evenly between those who favoured the simplicity and predictability of alignment with the Income Tax threshold and those who were concerned that alignment would exclude too many from pension saving. The majority of respondents, regardless of their favoured option, stressed the importance of having a trigger that is simple to administer and to explain.

Most respondents were in favour of maintaining alignment with National Insurance (NI) thresholds when it came to the qualifying earnings band although a sizeable minority thought the lower limit should be removed altogether to introduce savings from the first pound earned. The upper limit was more widely supported with most who responded agreeing that it met the policy intent.

We propose to lay an Order before Parliament as follows:

£10,000 for the automatic enrolment earnings trigger;

£5,824 for the lower limit of the qualifying earnings band;

£42,385 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 GOV.UK at:

https://www.gov.uk/government/consultations/workplace-pensions-automatic-enrolment-review-of-earnings-threshold

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. 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 aligned with the threshold for paying tax unless future action by Government resulted in a fundamental change in its purpose or its relationship with NI thresholds[1]. At the time of this review the income tax threshold for 2011/12 was announced as £7,475 and was expected to rise to its current rate of £10,000 over the course of the Parliament. The Chancellor set out his intention at the 2014 Budget to further increase this threshold to £10,500 from April 2015[2].

Tax relief on pension contributions is an important component of a pension pot and one of the drivers behind the current alignment between the earnings trigger and income tax threshold. 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 the new Multi-employer Schemes. 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 NPA.

Tax relief is the Government's contribution to individuals' pension saving and as such is a key benefit of workplace pension saving. Ideally we would only want to automatically enrol people who will benefit from tax relief. However, many lower paid workers have access to RAS schemes with several respondents to the 2013/14 consultation pointing out that some employers with low paid workers were using RAS schemes specifically so they could benefit from tax relief. Some respondents

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[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214585/cp-oct10-full-document.pdf

[2] Following the consultation a further increase to £10,600 was announced at Autumn Statement.

predicted that more employers would move to RAS schemes as automatic enrolment is rolled out.

Simplicity is also important, we need to ensure that the trigger is easy to understand and explain as well as straightforward to administer.

Given the range of issues that need to be taken into account and the fine balance that needs to be struck between them, the Government has decided to consult on four options for the 2015/16 earnings trigger:

Option 1 – Freeze the trigger at its current level of £10,000

Option 2 – Raise the trigger by indexation (CPI or Earnings)

Option 3 – Increase the trigger to £10,500 in line with the threshold for paying income tax

Option 4 – Use the Pension Commission benchmark replacement rate to determine the trigger

The impact of each of these options is explored in more detail below. Annex C contains a detailed analysis of the costs, savings and demographic effects and Annex D the equality analysis.

A summary of the factors we have considered and provisionally rejected both on the grounds that they are not relevant or do not best deliver the policy intention is at Annex E.

Option 1 – Freeze the trigger at its current rate of £10,000

The fiscal landscape has changed considerably since we first aligned the earnings trigger with the tax threshold in 2012. Earnings growth has been lower than expected and has significantly lagged behind increases to the income tax threshold. Whilst this has had the effect of taking many low paid workers out of income tax, continuing to follow the tax threshold risks excluding people from pension savings who might reasonably benefit. Additionally, when the MAEW review recommended that the earnings trigger be aligned with the income tax theshold, a rise above £10,000 this quickly had not been anticipated.

Freezing the trigger at £10,000 would maintain a *de minimis* or minimum gap that is more than trivial, which results in contributions in pounds and not pennies. The gap between the current trigger and the lower limit of the qualifying earnings band is £4,228 giving minimum annual contributions of about £85.

There are however some disadvantages to breaking the link between the earnings trigger and the threshold for paying income tax. It is likely to be more complex to administer for some employers with another distinct threshold to monitor. It could also make the trigger more difficult to explain to workers as it would longer coincide with earning enough to pay tax. Furthermore those workers enrolled into schemes using

the NPA form of tax relief who earn less than £10,500 per year will not benefit from tax relief on their savings.

Option 2 – Raise the Trigger by Indexation

Given the changing relationship between the income tax threshold and inflation, it makes sense to look at indexation as a means of increasing the threshold, either by CPI (the measure by which the NI thresholds are generally increased) or by growth in earnings.

This option has the advantage of ensuring that, broadly speaking, the eligible target population is maintained and the same people are brought into pension savings as now.

Wage inflation from April 2013 to April 2014 is currently at 0.45%[3] so increasing the threshold by earnings would result in an increase of £45 to £10,045. This would have a similar effect to Option 1 in terms of the numbers of savers and is arguably more complex to explain and administer. Increasing by CPI[4] would result in a slightly higher trigger of £10,183[5].

Raising the trigger by indexation would also maintain a slightly larger *de minimis* gap than Option 1; indexation by CPI would give a gap of £4,411, for wage inflation the gap would be £4,273.

As with Option 1 there is a risk of increased complexity in moving away from a recognised payroll threshold for administration and for employers to explain to their workers. It will also result in some individuals in NPA schemes being automatically enrolled without benefiting from tax relief.

Option 3 – Increase the trigger to £10,500[6] in line with the threshold for paying income tax

In previous years, the Government has decided to align the trigger with the income tax threshold as initially recommended in the MAEW review.

This option has several advantages. The first is simplicity; aligning with a recognisable tax threshold will simplify system build, provide compatibility with existing payroll systems and make automatic enrolment as easy as possible to administer and explain to workers. Secondly, given the central role that tax relief plays in building pension savings, it ensures that all those automatically enrolled can benefit from it. Thirdly it maintains a higher *de minimis* gap than Options 1 and 2 of £4,728.

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[3] http://www.ons.gov.uk/ons/rel/awe/average-weekly-earnings/index.html
[4] http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2014/
[5] Taking the latest September CPI (1.26%) which was unavailable at the time of the Consultation would imply a rate of £10,126.
[6] Announced at Autumn Statement that this will be increased to £10,600 from April 2015.

However these benefits have to be considered against the key principle of ensuring that the right individuals are brought into pension saving. It's clear that this option will take some low paid workers out of automatic enrolment who are likely to benefit from saving. There are around 120,000 fewer individuals in the eligible target population for automatic enrolment when the earnings trigger is set to £10,500, of which around 80,000 (66 per cent) are women. Overall, when the earnings trigger is set at £10,500, around 37% of the eligible target population are estimated to be women.

Option 4 – Use the Pension Commission's benchmark replacement rate to determine the trigger

A replacement rate is the ratio of income in retirement to income in work. For example, a replacement rate of 50 per cent means someone has half the income in retirement that they had in work. These can be used to judge whether someone's income in retirement is likely to provide them with adequate income to maintain their living standards. The Pension Commission benchmark replacement rate for people earning less than around £10,000 is 80%.

April 2016 will see the introduction of the new State Pension - the full level of which will be set above the basic level of means-tested support (the Pension Credit standard minimum guarantee - £148.35 per week in 2014/15). Based on an illustrative new State Pension start rate of £148.40, we expect the majority of people working today to receive around £7,700 in retirement from the State Pension[7]. This means that those currently earning £9,876[8] or less will meet the Pension Commission's benchmark replacement rate. For those earning £9,876 or more it makes sense to automatically enrol them so their income in retirement doesn't fall short of this benchmark.

This option would ensure that those who are unlikely to benefit from saving are not automatically enrolled. However, it has the same disadvantages as Options 1 and 2 as it moves away from a recognised payroll threshold and breaks the link between automatic enrolment and tax relief.

Consultation questions

Q1: Are there any other factors that should be taken into account in the review of the automatic enrolment earnings automatic enrolment trigger for 2015/16? If so please explain why they are relevant to the review.

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[7] By the mid 2030s, we expect over 80 per cent of people to receive the full level of the new State Pension

[8]The 2015/16 rate is higher (£10,073) due to uprating of the Pension Credit standard minimum guarantee..

Q2: Is it your experience that alignment with an existing payroll threshold reduces complexity? If so, please explain the impact upon you (or your clients) of

a) freezing the trigger or
b) increasing in line with indexation.

Q3: Which of the four options do you favour and why?

Q4: What pensions tax relief arrangement do you (or your clients) use and why?

Q5: Are there any other options we should be considering?

Q6: Would any of the four options have a disproportionate or unreasonable impact upon any particular sectors of the population? Please explain why and how. Are there any ways in which such an impact could be mitigated or reduced?

Responses to the consultation

Although most respondents did not raise any other factors to take into consideration when revising the automatic enrolment earnings trigger for 2015/16, there were a number of additional factors suggested for this year's review. Some respondents thought that the Budget reforms due to be introduced from 2015 would change the landscape and suggested that, as low earners could take pension pots in a lump sum, it was no longer necessary to limit pension savings to those who would benefit from receiving a retirement income through annuitisation.

A number of organisations suggested that more emphasis should be given to the affordability of pension contributions by considering the National Minimum Wage, living wage or the interaction between Universal Credit and pension contributions. One respondent thought that the key factor should be producing an annual figure which produced simple, rounded weekly and monthly rates. Other factors suggested included Opt-in and Opt-out rates, employer contribution levels and the phasing of contributions which means that contributions forgone by those not being automatically enrolled increase through time.

Several organisations, including some trade unions and pensions providers challenged the need for an earnings related trigger and called for it to be abolished or lowered (e.g. to the NI threshold) on the grounds that a higher trigger excludes low earners and part timers from automatic enrolment. One respondent thought that a principle for uprating the trigger should be fixed over the length of a parliament.

The majority of respondents agreed that alignment with existing payroll thresholds reduces complexity, simplified payroll processes and reduced the scope for administrative error.

A number of respondents thought that breaking the link with the existing threshold would result in increased costs for existing systems along with a greater risk of error. However a significant number thought that a break could be accommodated and thought that most payroll functions would be sufficiently flexible to deal with any

changes to the threshold. Several respondents thought that administrative complexity should not be the primary concern and that outcomes for savers should be the main focus.

The majority of respondents favoured either a rise in line with Income Tax (Option 3) or a freeze at £10,000 (Option 1). Just under half of all respondents favoured Option 3, although some of these said that if this brought too many people out of pension saving they would be happy with Option 1.

Those who favoured alignment with the Income Tax threshold cited administrative simplicity and the link to tax relief as the key reasons. Those who favoured Option 1 generally expressed concern that Option 3 would bring too many people, particularly women, out of pension saving. A number of respondents pointed to the fact that the Income Tax threshold had been subject to above inflation increases and could increase further; indeed, since the Consultation the Government has announced a further increase of £100 to £10,600 from April 2015. Most respondents who favoured Option 1 thought £10,000 would be a simple figure for employers and employees to understand.

A number of respondents were positive about the principle behind Option 2 (increase by indexation) and Option 4 (Pension Commission's Replacement Rate) but were concerned about complexity in practice. Conversely, some respondents challenged the relevance of Option 4 given the budget flexibilities and the difficulties in predicting what the future State Pension rate might be.

Equality issues were raised by a number of respondents, the majority of whom noted that Option 3 would disproportionately impact on lower paid workers and part-time workers, the majority of whom are women. Conversely, one respondent argued that setting the trigger too low would have a disproportionate effect on lower paid workers as some employers may seek to mitigate the impact by reducing investment in employment and training.

One respondent pointed out that younger workers are also likely to be lower paid. Another respondent asked about the evidence in relation to disabled people and whether the Government's analysis considers that some sub-sets of people with disabilities would be impacted more than others.

Respondents reported that group personal pensions generally used relief at source (RAS) whilst occupational pensions tended to use net pay arrangements (NPA). A number of respondents suggested that the distinction that currently exists between NPA and RAS should end so that all individuals should be able to get tax relief on their contributions.

Several respondents reported that as automatic enrolment moves towards smaller employers it is more likely that employers will use contract or master trust

arrangements which use RAS meaning that more individuals will benefit from tax relief.

Government response

The Government welcomes the broad range of comments and suggestions on how the aims of automatic enrolment can best be achieved. Whilst there was no clear consensus on how to do this there were a number of key themes which emerged including the need to reduce complexity as far as possible whilst ensuring the best overall outcomes for savers.

As outlined above, a number of additional factors for consideration were raised this year including affordability of contributions for both individuals and employers. The Government is sensitive to this issue, indeed it is a key function of the earnings trigger and earnings band. However the Government's considered view is that the overriding factor should be ensuring that people have sufficient income in retirement by having regard to the Pension Commission's replacement rate.

In light of this aim and the responses to the review, the Government's final proposal is that the earnings trigger for 2015/16 is frozen at £10,000. This strikes the right balance between ensuring that the people brought into pensions saving are likely to benefit and administrative simplicity. This would achieve the best mitigation of any impact upon protected groups. It is also very close to the Pension's Commission replacement rate of 80%. Using 2015/16 State Pension rates, we calculate that those earning £10,073 or less will meet the Pension Commission's benchmark replacement rate [9] at 2015/16 rates.

The disadvantage of this option is that it will break the link between the earnings trigger and tax relief, workers earning below £10,600 whose employers use Net Pay arrangements won't be able to benefit. However, as outlined above, a number of respondents predicted that as automatic enrolment extends to smaller employers the number of individuals who could benefit from RAS arrangements will increase.

A lower figure, as suggested by some respondents would increase the number of low paid workers in pension saving but would not meet the overall aims of the review e.g. ensuring that the right people are brought into savings and balancing the costs and benefits between individuals and employers. The Government's view remains that opt-in provides the best protection for those earning under £10,000 who wish to save.

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[9] The calculation used to estimate £10,073 is as follows;

$$\frac{(\text{New State Pension }/80\%) - (\text{NIC's rate } * \text{NIC's Primary Threshold})}{(100\% - \text{NIC's rate})}$$

The New State Pension has been set at £151.25 per week (£7,865 per annum).
Employees' primary Class 1 rate between primary threshold and upper earnings limit is at 12 per cent.
NIC's Primary Threshold (PT) is set at £155 per week (£8,060 per annum).

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 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 coming 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 people start to gain qualifying years for the State Pension from earnings at or above 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 2014/15 the *de minimis* gap is £4,228, based on the trigger of £10,000 and the lower limit of the qualifying earnings band of £5,772; minimum overall contributions for someone earning just over the trigger would be around £7 a month. This figure assumes a minimum contribution during the first phasing profile of 1% matched[10]. 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 two previous consultations on the thresholds, 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 2015/16. It delivers the policy intentions:

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[10] Minimum contributions are currently a total of 2 per cent (with at least 1 per cent from the employer), rising to 5 per cent (with at least 2 per cent from the employer) from October 2017, and 8 per cent (with at least 3 per cent from the employer) from October 2018.

it targets people who are accruing state pension rights;

it aligns with a recognisable pay roll threshold; allied to all of the options for the trigger considered above, it continues to produce a *de minimis* gap;

it maintains the overall minimum contribution at around £7 a month.

Consultation questions

We asked if there any other factors that should be taken into account in the review of the qualifying earnings band lower limit for 2015/16. 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 2015/16 and did not think it caused any problems. Several respondents commented that continuing to align the qualifying earnings band with National Insurance thresholds makes it simple for employers to implement and employees to understand.

Several respondents thought that maintaining a *de-minimis* gap to ensure that people pay contributions on a meaningful portion of their income remains important although a number of respondents felt that the Budget flexibilities made this less relevant than in previous years.

A sizable minority thought that the earnings band should be lowered or removed altogether i.e. with contributions paid from the first pound of earnings. These respondents argued that many low paid workers would not be paying sufficient contributions to provide for their retirement with many falling far short of 8% if all earnings were taken into account.

Some respondents reported that the lower limit was complex to understand, and administratively burdensome. Another respondent felt it resulted in trivial contributions. One respondent suggested that it would be more straightforward if an annual figure was used which produced simple, rounded weekly and monthly rates

A number of respondents, whilst happy to align with the National Insurance threshold in 2015/16 asked the Government to consider reviewing the earnings bands in 2017.

Government response

The proposition that we should abolish the lower limit of the qualifying earnings band 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 the first pound of earnings this is estimated to add around £250 million to their costs next year (2015/16) and around £1.2 billion per year in steady state (from 2019/20), under the Government's proposed package.

The Government's view is that the *de minimis* gap continues to be relevant to ensure that contributions are made in pounds not pennies and want to avoid as far as possible 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 £ 5,824 means that even workers earning just over the automatic enrolment trigger of £10,000 will make pensions contributions based on a meaningful portion of their salary.

Based on the trigger of £10,000 and the lower limit of the qualifying earnings band of £5,824, the *de minimis* gap would be £4,176 for 2015/16; minimum overall contributions for someone earning just over the trigger would be around £7 a month.

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 2015/16 of £5,824.

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 are more likely to have access to a scheme that offers more than the minimum and to make personal arrangements for additional saving.

The top of the qualifying earnings band is currently aligned with the National Insurance contributions UEL of £41,865. This is consistent with the original Pensions Commission's starting point and delivers the policy objectives.

Next year the National Insurance UEL is £42,285 an increase of £420 or 1 per cent. This would increase minimum monthly pension savings by around £1.

Another relevant factor in considering the value of the upper limit is to raise it in line with earnings inflation which was the original proposition from the MAEW review. This

would produce a value of £42,052. Similarly, raising the upper limit in line with price inflation would give a value of £42,631.

Taking into account the policy objectives our provisional view is that the National Insurance upper earnings limit at its announced value of £42,285 of 2015/16 is the factor that should determine the top of the qualifying earnings band. In particular it delivers the prize of payroll alignment.

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

A summary of the factors we have considered and provisionally rejected both on the grounds that they are not relevant or do not best deliver the policy intention is at Annex E.

Consultation questions

We asked whether there were any other factors that should be taken into account in the review of the qualifying earnings band upper limit for 2015/16. We also asked whether alignment with the National Insurance upper earnings limit caused any problems.

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

The majority of respondents did not think there were any other relevant factors that should be taken into account for the revision of the qualifying earnings band upper limit for 2015/16 and did not think it caused any problems. Most agreed that it met the policy intent.

A small number of respondents called for the upper limit to be removed on the grounds that it limited the amount of pension savings and risked under-saving for higher earners. One respondent suggested that under-saving may be more prevalent amongst the SME community. A small number of respondents thought having an upper limit added unnecessary complexity.

These arguments were countered however by those who found the upper limit helpful in limiting the exposure of the employer and providing certainty for financial planning on the cost of automatic enrolment.

Government response

The qualifying earnings band is designed to set minimum pension contributions, not maximum savings levels. Employers who wish to offer contributions from the first pound of earnings 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 removal of the upper limit would add £80 million to employer costs next year (2015/16) and around £400 million per year in steady state (from 2019/20), under the Government's proposed package.

Since the consultation, the Chancellor has announced a further increase in the upper earnings limit to £42,385, this would increase minimum monthly pension savings by around £2.

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 2015/16 of £42,385.

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 amounts:

£10,000 for the automatic enrolment earnings trigger;

£5,824 for the lower limit of the qualifying earnings band;

£42,385 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 2015.

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.

Annex B: Equality implications of changes to the earnings trigger

We estimate that there are around 10 million workers in the eligible target population for automatic enrolment, (of which just under two in five (37 per cent) are women.

Freezing the automatic enrolment trigger at £10,000 results in a real terms decrease in the trigger and thus includes more individuals. This increase in the target population has been estimated at 20,000 (of which 70 per cent are women).

As women are more likely to work part-time, or earn less than men, there will be a higher proportion of them represented in the group included in automatic enrolment by a downward revision of the trigger.

(Note: Raising the 2014/15 value of the automatic enrolment trigger from £9,440 to £10,000 excluded around 170,000 people, of whom 120,000 (69 per cent) are women. Raising the 2013/14 value of the automatic enrolment trigger from £8,105 to £9,400 excluded around 420,000 individuals, of whom 320,000 (76 per cent) are women. 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 were 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 were women. These figures are not directly comparable with the 2015/16 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 at 10 per cent if the trigger was frozen at £10,000.

The latest evidence also suggests that freezing the earnings trigger to £10,000 would result in the proportion of disabled people in the revised eligible group remaining at 12 per cent.

The median age of those eligible for automatic enrolment on the current earnings trigger is 41 years whilst the median age of those in the eligible target group is 39 which indicates that there is a slightly higher proportion of younger workers in the eligible target group in comparison to 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 2015/16 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 2015/16)

	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	£10,000 (2014/15 PAYE threshold and current trigger)	£5,772 (2014/15 National Insurance Lower Earnings Limit and current qualifying earnings band lower limit)	£41,865 (2014/15 Upper Earnings Limit and current qualifying earnings band upper limit)	£762m	£587m	£175m	£1,524m	£60m
Proposal	£10,000	£5,824 (Announced 2015/16 National Insurance Lower Earnings Limit)	£42,385 (Announced National Insurance Upper Earnings Limit for 2015/16)	£763m	£587m	£175m	£1,526m	£60m
Difference	-	-	-	£1m	£1m	£0m	£1m	£0m

Notes:

Source: DWP Modelling.

Estimates are expressed in 2015/16 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.

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;
- 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 2015/16	Factor	Reason excluded / rejected
£10,045	Earnings inflation	Relevant but rejected. Difficult to understand and explain.
£10,126	Price inflation	Relevant but rejected. Difficult to understand and explain.
£10,600	Income Tax Personal Allowance 2015/16	Relevant but rejected.

Value 2015/16	Factor	Reason excluded / rejected
		Reduces numbers being auto enrolled into saving
£10,073	Pension Commission benchmark replacement rate.	Relevant but rejected. Difficult to understand and explain.

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

Value 2015/16	Factor	Reason excluded / rejected
£5,798	Earnings inflation	Relevant but rejected. Does not align with a recognisable payroll threshold.
£8,060	National Insurance primary threshold	Relevant but rejected. Too high to be a contributions threshold. Reduces savings levels. Would not provide for a de minimis.

Table 4: Review factors considered and rejected for the revaluation of the qualifying earnings band upper limit

Value 2015/16	Factor	
£42,052	Earnings inflation	Relevant but rejected. Does not align with a recognisable payroll threshold.
£42,393	Price inflation	Relevant but rejected.

Value 2015/16	Factor	
		Does not align with a recognisable payroll threshold. Increased financial burden on employers

Annex E: Respondents

AKJ HR
Age UK
Association of Accounting Technicians
ABI
Association of Consulting Actuaries
Association of Convenience Stores
Association of Licenced Multiple Retailers
Association of School & College Leavers
Association of Taxation Technicians
Aviva
B & CE The People's Pension
Cascade HR
Castlegate Capital
Chartered Institute of Payroll Professionals
Creative Benefits
D2 Financial Solutions
Friends Life
GMB
Hymans Robertson
Institute of Faculty and Actuaries
Jaguar Landrover
Hargreaves Lansdown
Low Income Tax Reform Group
NAPF
National Farming Union
NOW Pensions
Papworth Trust
Pension Policy Institute
Royal Bank of Scotland
Royal London
Scottish Widows
Society of Pensions Professionals
Standard Life
The Pensions Trust
Towers Watson
TUC
Universities & Colleges Employers Association

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.