Department
for Work &
Pensions

Automatic enrolment earnings thresholds review and revision 2015 / 2016

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

October 2014

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About this consultation

Purpose of the consultation

This consultation is for the automatic enrolment thresholds for 2015 / 2016. 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 2015 /2016. We are seeking views both on the factors that should inform the review and, where appropriate, the proposed thresholds. This document is available on the Department's website at: www.gov.uk/dwp

Who this consultation is aimed at

The consultation is aimed at employers, Trade Unions, 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 15th October 2014 and runs until 25th November 2014.

How to respond to this consultation

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

Automaticenrolment.consultation@dwp.gsi.gov.uk

Or by post to:

Alison Evans
Department for Work and Pensions
Automatic Enrolment Programme
1st Floor
Caxton House
London SW1H 9NA

Please ensure your response reaches us by **25 November 2014**.

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 Alison Evans at Alison.evans@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 https://www.gov.uk/make-a-freedom-of-information-request

Consultation principles

This consultation is being conducted in line with the 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 publish the Government response to the consultation on www.gov.uk/dwp

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 relevant. [See Annex A]

Automatic enrolment began in October 2012 with employers "staged in" over six years starting with the largest employers. All large employers with over 250 workers have now been staged and staging is well underway for medium sized employers. To date, over 4.7 million workers have been automatically enrolled by around 34,000 employers.

The Government consulted on the figures for the first two years 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. These early consultations were invaluable. They demonstrated where respondents felt that balance lay and the issues for employers, individuals and the pensions industry.

The Government is now reviewing the current thresholds in readiness for next year and have decided that the timing is right for a further consultation. Given the number of employers who have now gone through the staging process, we hope to gain some valuable insight on the experiences of live running. We would also like to test whether maintaining the alignment between the earnings trigger and the income tax threshold remains right in the light of proposed increases to the threshold and suppressed earnings growth.

If changes are made, these will come into effect on 6 April 2015. 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 thresholds. We therefore propose to respond to this consultation in December, around the time of the Autumn Statement. As with previous years, 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 2012/ 2013 we identified three principles that we considered to be of primary importance in setting the automatic enrolment thresholds. These were endorsed by stakeholders responding to the first two consultations and we believe that these principles are still relevant.

(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 relevant and we need to factor in the continuing importance of simplicity. Alignment as far as possible with recognisable tax and NICs thresholds simplifies system builds, provides compatibility with existing payroll systems and makes 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 2015/16 to give a more relevant assessment of the impact for next year rather than steady state. The analysis uses the latest ONS data (CPI or AWE)[1] to project values for 2015/16 as the figures are not yet available.

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[1] http://www.ons.gov.uk/ons/rel/awe/average-weekly-earnings/index.html

[1] http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2014/

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 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[2]. 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.

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

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

with low paid workers were using RAS schemes specifically so they could benefit from tax relief. Some respondents 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 no 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 would result in a slightly higher trigger of £10,183[4].

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 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

[3] http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/september-2014/dataset--earnings.html
[4] http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2014/

enrolled can benefit from it. Thirdly it maintains a higher *de minimis* gap than Options 1 and 2 of £4,728.

However these benefits have to be considered against the key principle of ensuring that the right individuals are brought into pension saving. 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[5]. This means that those currently earning £9,876[6] 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.

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

[6] Taking into account Class 1 NICs and assuming a State Pension rate of £7700. The actual 2015/16 rate is likely to be higher due to uprating of the Pension Credit standard minimum guarantee, so figures provided here are illustrative only.

Summary of trigger rates for each option

OPTION	Rate
Option 1 – Freeze the trigger at its current level	£10,000
Option 2 – Raise the trigger by indexation (CPI or Earnings)	£10,183 (CPI)
	£10,045 (Earnings)
Option 3 – Increase the trigger in line with the threshold for paying income tax	£10,500
Option 4 – Use the Pension Commission's benchmark replacement rate to determine the trigger	£9,876[7]

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.

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?

[7] The actual 2015/16 rate is likely to be higher due to uprating of the Pension Credit standard minimum guarantee.

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 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[8]. We want to maintain a *de minimis* gap that produces contributions in pounds not pennies and ideally around or above this level.

[8] 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.

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:

- 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 least £7 a month.

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

Q7: Are there any other factors that should be taken into account in the review of the qualifying earnings band lower limit for 2015/16? If so please explain why.

Q8: 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 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

Q9: Are there any other factors that should be taken into account in the review of the qualifying earnings band upper limit for 2015/16? If so please explain why.

Q10: Has alignment with the National Insurance upper earnings limit caused any problems? If so please explain.

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: Methodology

Estimates of **employer and individual contributions** show the additional costs to employers and individuals of the proposed changes to workplace pension reforms. They are calculated using:

- Estimates of the number of workers for and from whom additional contributions are due;
- workers' average qualifying earnings estimated using the Annual Survey of Hours and Earnings 2013 (ASHE)[9]; and
- Assumed minimum contribution rates for employers and workers (both 1 per cent of band earnings in 2015/16).

Estimates of **individual tax relief** are calculated by multiplying the estimates of individuals' additional pension contributions by the appropriate income tax rate. An adjustment is applied to allow for tax relief paid on contributions by higher rate income tax payers.

Estimates of **employer tax relief** represent the tax no longer paid by employers who respond to the additional pension contribution costs of the workplace pension reforms by reducing profits or wages paid to their workers. These are calculated by multiplying the estimates of employers' additional pension contributions by estimates of the percentage of employers who will reduce profits or wages and then by the appropriate rate of corporation tax or employers' national insurance contributions respectively. Estimates of the percentage of employers responding to the additional costs of the reforms by reducing profits or wages are taken from the 2011 Employer Pension Provision survey[10].

Eligible workers are defined as those:

- Ordinarily working in Great Britain;
- Aged at least 22 and under State Pension age;
- Earning more than £10,000[11] in 2014/15 earnings terms.

Estimates of the **demographic effects** of different earnings triggers are produced using ASHE 2013 and the latest data from the Labour Force Survey (LFS). Analysis is presented for two groups: the population eligible for automatic enrolment and the population who are eligible but not currently saving in a workplace pension – the "target population". By definition all

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[9] For more details on ASHE methodology, see the ONS documents here: http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Annual+Earnings

[10] Table 6.10 shows employers' most likely strategy in response to the increase in total pension contribution costs resulting from automatic enrolment.

[11] This threshold is converted into 2013/14 earnings terms at £9,889 so that it is on the same terms as the ASHE data.

individuals in the target population are eligible for automatic enrolment. The eligible population is defined above. The definition of the target population is set out below.

Target population: 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 per cent of the individual's salary, and is not a defined benefit scheme. [12]

ASHE 2013 was used to analyse the eligible target population by gender and age. The latest LFS data was used to analyse the eligible population by disability status and ethnicity.[13]

Estimates of the contribution costs and tax relief associated with different thresholds are subject to uncertainty due to the use of modelling techniques that draw on a range of different data sources. Estimates of the impact of this uncertainty on the accuracy of the estimates are not available so some caution should be exercised in interpreting the figures presented.

[12] Defined benefit pension schemes are occupational pension schemes specifying the benefits that are paid on retirement.
[13] LFS does not collect data on employer contributions to pensions so it is not possible to produce analysis for the eligible target population.

Annex C: Analysis of costs, savings and demographic effects

Table C1: Estimates of the impact of changing earnings trigger on employers, individuals and Government (£ million, in 2015/16)

Earnings Trigger	**Rationale**	**Demographic Effects**	**Employer Contributions**	**Individual Contributions**	**Individual Tax Relief**	**Level of Pension Saving**	**Employer Tax Relief**
£10,000 (baseline)	PAYE threshold 2014/15 and current trigger	Target Population: 10 million Women- 37% BME- 10% Disabled-12%	£760m	£590m	£180m	£1,520m	£60m
£10,000	2014/15 threshold Freeze	Included Group: 0.03m Of which women: 78%	£0m	£0m	£0m	£1m	£0m
£10,045	2014/15 threshold increased by estimated earnings inflation (AWE)	Included Group: 0.02m Of which women: 76%	£0m	£0m	£0m	£1m	£0m
£10,183	2014/15 threshold increased by estimated price inflation (CPI)	Excluded Group: 0.02m Of which women: 62%	£0m	£0m	£0m	-£1m	£0m
£10,500	Personal Allowance threshold for 2015/16	Excluded Group: 0.12m Of which women: 66%	-£3m	-£2m	-£1m	-£6m	£0m

£9,876	Replacement rate	Included Group: 0.08m Of which women: 68%	£1m	£1m	£0m	£2m	£0m

Notes:

1. Source: DWP Modelling
2. Estimates are expressed in 2015/16 earnings terms.
3. Scenarios after the baseline present the change in costs and accompanying demographic effects as compared to the baseline.
4. Figures are rounded to the nearest £10m and £1m as appropriate to reflect uncertainties associated with the modelling approach used, and therefore may not sum exactly. Similarly, demographic effects are rounded to the nearest 0.01m and 1 per cent, as appropriate.
5. The lower and upper bands are held constant at £5,772 and £41,865 respectively.
6. Pension saving is the sum of tax relief, employer contribution and individual contribution costs.
7. Demographic effects for women are estimated from the Annual Survey of Hours and Earnings and from the ONS Labour Force Survey for ethnicity and disability.

Table C2: Estimates of the impact of changing the lower limit of the qualifying earnings band on employers, individuals and Government (£ million, in 2015/16)

Lower limit of the QEB (in 2015/16 terms)	**Factor**	**Employer Contributions**	**Individual Contributions**	**Individual Tax Relief**	**Level of Pension Saving**	**Employer Tax Relief**
£5,772	PAYE threshold 2014/15 and current trigger	£760m	£580m	£170m	£1,520m	£60m
£5,798	2014/15 threshold increased by estimated earnings inflation (AWE)	£2m	£1m	£0m	£3m	£0m
£5,878	2014/15 threshold increased by estimated price inflation (CPI)	-£2m	-£1m	£0m	-£3m	£0m
£8,102	2015/16 National Insurance Contributions Primary Threshold	-£101m	-£78m	-£23m	-£202m	-£8m

1. Source: DWP Modelling
2. Estimates are expressed in 2015/16 earnings terms.
3. Scenarios after the baseline present the change in costs as compared to the baseline.
4. Figures are to the nearest £10m and £1m as appropriate to reflect uncertainties associated with the modelling approach used, and therefore may not sum exactly.
5. The earnings trigger and upper bands are held constant at £10,000 and £41,865 respectively.
6. Pension saving is the sum of tax relief, employer contribution and individual contribution costs.

Table C3: Estimates of the impact of changing the upper limit of the qualifying earnings band on employers, individuals and Government (£ million, in 2015/16)

Upper Earnings Limit	Factor	Employer Contributions	Individual Contributions	Individual Tax Relief	Level of Pension Saving	Employer Tax Relief
£41,865	PAYE threshold 2014/15 and current trigger	£760m	£590m	£180m	£1,530m	£60m
£42,052	2014/15 threshold increased by estimated earnings inflation (AWE)	-£1m	-£1m	£0m	-£2m	£0m
£42,285	2015/16 National Insurance Contributions Upper Earnings Limit	£0m	£0m	£0m	£0m	£0m
£42,631	2014/15 threshold increased by estimated price inflation (CPI)	£1m	£1m	£0m	£2m	£0m

1. Source: DWP Modelling
2. Estimates are expressed in 2015/16 earnings terms.
3. Scenarios after the baseline present the change in costs as compared to the baseline.
4. Figures are to the nearest £10m and £1m as appropriate to reflect uncertainties associated with the modelling approach used, and therefore may not sum exactly.
5. The earnings trigger and lower bands are held constant at £10,000 and £5,772 respectively.
6. Pension saving is the sum of tax relief, employer contribution and individual contribution costs.

Annex D: Equality implications of change in the earnings

With an earnings trigger of £10,000, around 10 million workers are estimated to be in the eligible target population for automatic enrolment, (of which just under two in five (37 per cent) are women.

Raising the 2015/16 value of the automatic enrolment trigger from £10,000 to £10,500, excludes around 120,000 individuals, of whom 80,000 (66 per cent) are women. Raising the trigger by CPI indexation would result in an excluded group of approximately 15,000 people of whom approximately 62 per cent are women.

Either freezing the automatic enrolment trigger or increasing by an earnings indexation would result in a real terms decrease in the trigger and would thus include more individuals. This increase in the target population has been estimated at 30,000 and 20,000 respectively (of which 78 per cent and 76 per cent are women).

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 10 per cent with all triggers considered.

The latest evidence also suggests that the proportion of people with a disability in the eligible group would remain broadly the same at 12% for all triggers considered.

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 E: Summary of review factors considered and excluded or rejected

Automatic enrolment earnings trigger

Table E1

Value 2015/16	**Factor**	**Reason excluded / rejected**
£42,285	NICs UEL	Excluded as not relevant. Too high to be a savings entry point
£8,102	(Projected) National Insurance contributions primary threshold	Relevant but rejected. State pensions accruals start at the lower NICs LEL with credited contributions.
£115.95 per week (approx. £6,050 per annum)[14]	(Projected) Rate of basic state pension in payment	Relevant but rejected. *De minimis* not achieved at this figure.
£5,798	(Projected) National Insurance contributions lower earnings limit	Relevant but rejected. *De minimis* not achieved at this figure.

[14] Assumes that the basic state pension will be uprated by 2.5%

Qualifying earnings band lower limit

Table E2

Value 2015/16	**Factor**	**Reason excluded / rejected**
£42,285	(Projected) National Insurance contributions upper earnings limit	Excluded as not relevant. Too high to be a contributions threshold; cap not a threshold.
£10,000	PAYE threshold	Relevant but rejected. Too high to be a contributions threshold. Reduces savings levels. Would not provide for a *de minimis*
£115.95 per week (approx. £6,050 per annum)[15]	(Projected) Basic state pension in payment	Relevant but rejected. Does not align with a recognisable payroll threshold. Similar value to preferred factor NICs LEL

[15] Assumes that the basic state pension will be uprated by 2.5%

Qualifying earnings band upper limit

Table E3: Factors excluded as not relevant to upper limit of the qualifying earnings band

Value 2013/14	Factor	Reason excluded / rejected
£10,000	PAYE threshold	Excluded as not relevant. Too low to be a contributions cap
£8,102	(Projected) National Insurance primary threshold	Excluded as not relevant. Too low to be a contributions cap
£115.95 per week (approx. £6,050 per annum)[16]	(Projected) rate of basic state pension in payment	Excluded as not relevant. Too low to be a contributions cap
£5,798	(Projected) NICs LEL	Excluded as not relevant. Too low to be a contributions cap

[16] Assumes that the basic state pension will be uprated by 2.5%

Annex F: Consultation questions

Automatic enrolment trigger

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.

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.

Qualifying earnings band lower limit

Q7: Are there any other factors that should be taken into account in the review of the qualifying earnings band lower limit for 2015/16? If so please explain why.

Q8: Has alignment with the National Insurance lower earnings limit caused any problems? If so please explain.

Qualifying earnings band upper limit

Q9: Are there any other factors that should be taken into account in the review of the qualifying earnings band upper limit for 2015/16? If so please explain why.

Q10: Has alignment with the National Insurance upper earnings limit caused any problems? If so please explain.

Annex G: 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).