Department for Work & Pensions

Review of the Automatic Enrolment Earnings Trigger and Qualifying Earnings Band for 2021/22: Supporting Analysis

January 2021

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Background

Automatic enrolment obliges employers to enrol all workers who ordinarily work in Great Britain and who satisfy specific age and earnings criteria into a qualifying workplace pension, and to pay at least the minimum level of contributions.

The automatic enrolment **earnings trigger** determines who is eligible to be automatically enrolled into a workplace pension by their employer in terms of how much they earn. There is also a qualifying earnings band in respect of which contributions are made – the band is defined by the **lower earnings limit** and the **upper earnings limit.** The earnings trigger and the qualifying earnings bands are often jointly referred to as the **Automatic Enrolment earnings thresholds**. They are set in legislation and reviewed annually. This report sets out the methodology, analysis and outcome of this year's review. It is a statutory requirement that the Secretary of State reviews all three thresholds in each tax year.

The lower earnings limit of the band is also relevant to defining who falls into the category of 'non-eligible job-holders'. People in this group can opt-in to their employer's workplace pension and will received a mandatory employer contribution if they earn between the lower earnings limit and the earnings trigger.

Automatic enrolment has been introduced gradually and is now in force for all employers and eligible workers. By the end of December 2020, over 10 million workers have been automatically enrolled and more than 1.7 million employers have met their duties.[1]

[1] Latest "Automatic enrolment declaration of compliance" report can be found here www.thepensionsregulator.gov.uk/doc-library/research-analysis

Annual Review

Within the review of the automatic enrolment earnings trigger and qualifying earnings band for 2021/22 the Secretary of State has some flexibility in the level to which the amounts for the earnings trigger and qualifying earnings band are set. Section 14 of the Pensions Act 2008 also sets out certain factors which the Secretary of State may take into account in reviewing these amounts.[2] This statutory review will continue each year as the law requires. Whilst decisions are made for 2021/22 and the government can set out policy objectives and the principles that should inform the setting of the thresholds, it cannot pre-determine the approach for future years. This is in line with current legislation. This maintains the ability for the Secretary of State to exercise judgement on the appropriate levels to set the thresholds at each year, without being impeded by decisions that have been made previously. Furthermore, it allows the Secretary of State the flexibility that enables her to take current economic factors into consideration when deciding on the appropriate levels to set the thresholds.

The first two annual reviews established three principles to be used when reviewing the automatic enrolment thresholds. These principles were endorsed by stakeholders and the government's view is that they remain relevant:

a) **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?

b) **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 an appropriate gap between the lower limit of the qualifying earnings

[2] '14(3) For the purposes of subsection (1) the Secretary of State may take into account any of the factors specified in subsection (4) (as well as any others that the Secretary of State thinks relevant).
(4) The factors are—
(a) the amounts for the time being specified in Chapter 2 of Part 3 (personal allowances) of the Income Tax Act 2007;
(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);
(c) the amounts for the time being specified in section 44(4) of that Act (rate of basic state pension) and in regulations under section 3(1) of the Pensions Act 2014 (full rate of 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.'
Pensions Act 2008: http://www.legislation.gov.uk/ukpga/2011/19/contents/enacted

band and the earnings trigger.

c) **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 National Insurance Contributions (NICs) thresholds simplifies system builds, provides compatibility with existing payroll systems and makes automatic enrolment as easy as possible to administer and explain.

The Secretary of State has considered each of the above principles alongside an assessment of the relevance of the review factors set out in the Pensions Act 2008 in reaching a conclusion on the level at which to set each threshold for 2021/22.

Results of This Year’s Review

Earnings Trigger

The earnings trigger is one of the three key factors which ultimately governs who gets enrolled into a workplace pension scheme through automatic enrolment. The Government’s view remains that if the trigger is too high, then low to moderate earners who can afford to save (and who are the main target group of the policy), may miss out on the benefits of a workplace pension. Set it too low, however, and the predominant impact will be upon people for whom it could make little economic sense to save into a pension and thereby divert income away from their day to day needs.

The Secretary of State has considered the latest analytical evidence and the policy objectives and has concluded that the existing threshold of **£10,000** remains the correct level at this point in the establishment of automatic enrolment and will not change for 2021/22. This represents a real terms decrease in the value of the trigger when combined with assumed wage growth and will result in an estimated additional 8,000 savers. The decision reflects the key balance that needs to be struck between affordability for employers and individuals and the policy objective of giving those, who are most able to save, the opportunity to accrue a meaningful level of savings with which to use for their retirement. It also reflects the need for stability at this point in the light of the challenging economic circumstances arising from the Covid-19 pandemic and whilst we continue to learn from the increases in minimum contribution rates in April 2018 and April 2019. It provides consistency of messaging for both employers and jobholders.

The Secretary of State has also assessed the equality impacts associated with this decision which are detailed later in this report. The Secretary of State remains of the view that voluntary opt-in provides the most appropriate option for those earning less than the earnings trigger who wish to save.

The Secretary of State has accounted for the impact of both the National Minimum wage and the National Living Wage when considering what the earnings trigger should be and continues to monitor the impact of this on low earnings and the automatic enrolment earnings trigger.

Qualifying Earnings Band - Lower Limit

Automatic enrolment into a workplace pension with an employer contribution in addition to that of an individual is intended to build on the foundation of state pension entitlement. The lower limit of the qualifying earnings band sets the minimum amount that people must earn before their employer can start to calculate their pension contributions and include the minimum employer contributions. It therefore determines the lower level of an enrolled workers' earnings on which they and their employer have to pay contributions.

The Secretary of State has considered all review factors against the analytical evidence and has decided to maintain the link with the National Insurance Contributions Lower Earnings Limit which remains unchanged at its 2020/21 value of **£6,240** when rounded. Therefore, the value of the lower limit of the qualifying earnings band for 2021/22 will continue to be set at **£6,240**.

The 2017 Review of Automatic Enrolment proposed the removal of the lower earnings limit, with the ambition to make this change in the mid-2020s. The 2017 Review report was clear that implementation will be subject to learning from the workplace pension contribution increases in 2018 and 2019, discussions with employers and others on the right implementation approach, and finding ways to make these changes affordable. As with other areas of public policy, we will pay close attention to the impact and costs of making changes and consider the optimal approach on implementation in the light of the impact of the Covid-19 pandemic and our overall focus on the economic recovery, whilst continuing to support long-term saving, balancing the needs of savers, employers and tax-payers.

We will work to maintain the consensus that has underpinned AE's success, including giving employers and savers time to plan for future changes. In that way, we can help to minimise any risk of deterring individuals from continuing to save or undermining employer engagement. This longer term policy direction does not pre-empt this year's or any future annual thresholds review, pending the introduction of legislation which would need to be enacted to remove the lower earnings limit of the qualifying earnings band.[3]

Qualifying Earnings Band – Upper Limit

The upper limit of the qualifying earnings band caps mandatory employer contributions. It aims to distinguish the automatic enrolment target group of low to moderate earners and the statutory minimum contributions from earners in a higher tax band who might reasonably be expected to have access to a scheme that offers more than the minimum and are more likely to make personal arrangements for additional saving. The Secretary of State has concluded that mandatory employer contributions should still be capped and decided that the National Insurance Contributions Upper Earnings Limit at its 2021/22 value of **£50,270** is the factor that

[3] https://www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum

should determine the upper limit of the qualifying earnings band for automatic enrolment.

Retaining the link between National Insurance Contribution levels and the qualifying earnings band limits provides an important element of consistency for employers, the pensions industry and payroll services.

Proposed Thresholds for 2021/22

The current (2020/21) and proposed (2021/22) automatic enrolment thresholds are displayed in Table 1.

Table 1 – Current and proposed automatic enrolment thresholds

	Trigger	Lower limit qualifying earnings band	Upper limit qualifying earnings band
Current (2020/21)	£10,000	£6,240	£50,000
Proposed (2021/22)	£10,000	£6,240	£50,270

Methodology

This section describes the methodology used to estimate the impact of proposed changes to the automatic enrolment thresholds. Impacts are calculated by comparing a modelled baseline scenario in 2021/22 against one where changes to the 2020/21 thresholds are made.

The **baseline thresholds** for 2021/22 are the 2020/21 thresholds uprated in line with forecast earnings growth. This effectively holds the thresholds constant in real earnings terms. For this purpose we used the Office for Budgetary Responsibility's (OBR) November 2020 forecast for earnings growth of 1.17 per cent between quarter 4 2019 and quarter 4 2020.[4]

Broadly, we model **three different types of options for each threshold** for comparison against the baseline. They are:

1. Freezing the thresholds at their 2020/21 level;
2. Setting the thresholds in line with relevant 2021/22 National Insurance or tax thresholds;
3. Uprating the 2020/21 thresholds by a relevant index (e.g. earnings, CPI etc.)

In the model**, total, individual and employer pension contributions** in each scenario are estimated for the 2021/22 tax year using:

- Data from the 2019 Annual Survey of Hours and Earnings[5] on private sector employees' earnings and current levels of pension participation and contributions.
- Estimates from 2019 ASHE data of the bands of earnings on which individuals are making pension contributions. We account for evidence showing that some employers and employees contribute on earnings below the LEL and/or above the UEL.
- OBR forecasts of earnings growth and changes to the size of the workforce between 2019 and 2021.
- Modelled impacts on participation rates using ASHE data as a result of making changes to the earnings trigger.
- Contribution rates for employers and employees, where the minimum for a qualifying pension scheme in 2021/22 is 8 per cent total contributions

[4] OBR Economic and Fiscal Outlook November 2020 https://obr.uk/efo/economic-and-fiscal-outlook-november-2020

[5] For more details on ASHE methodology, see the Office for National Statistics documents here: www.ons.gov.uk/ons/taxonomy/index.html?nscl=Annual+Earnings

(including tax relief) on relevant earnings, of which at least 3 per cent is from the employer.

These figures then inform estimates of:

- **Income tax relief.** Individuals receive tax relief on their pension contributions. It is estimated by multiplying total pensions contributions from individuals by the appropriate income tax rates.[6]

- **Employer tax relief**. Because some employers have indicated that they have responded to increases in the cost of employer pension contributions by reducing wages and/or profits, it follows that they will have paid less employer National Insurance contributions and/or corporation tax due to these increased contributions than they would have otherwise done. We estimate both of these effects by multiplying the overall size of employer pension contributions by:
    - the percentage of employers who indicated that they behaved in that way[7], and
    - the appropriate tax rate, either employer NICs or corporation tax.

Finally, estimates of the **equalities impacts** of different thresholds are produced using 2019 ASHE data and the 2019/20[8] Labour Force Survey (LFS). ASHE is used to analyse the proportion of additional/fewer participants and contributions for each option by **gender** and **age**. The LFS was used to analyse the impact of earnings threshold changes by **disability status** and **ethnicity**. The LFS is used for these characteristics as ASHE does not include this data. The LFS does not include data on pension contributions, so the equalities assessment by disability status and ethnicity is limited to an analysis of individuals brought newly above or below the earnings trigger by changes to this threshold relative to earnings. This is a proxy measure of the impact on participation by these characteristics, which may be less accurate if the participation rates of low earnings with disabilities or from minority ethnic groups differ significantly from the participation rates of other low earners.

The breakdowns of these demographics are presented in Annex A.

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[6] This calculation assumes a proportion of low earners saving through Relief at Source pension schemes consistent with figures given in the HM Treasury Call for Evidence on pensions tax administration https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence

[7] Using Employers' Pension Provision 2019 Survey, results published in the DWP Automatic Enrolment Report 2019 https://www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2019

[8] The data sets: April – June 2019, July – September 2019, October – December 2019 and January – March 2020 were combined to represent 2019/20.

Changes from previous years

The methodology used has undergone revisions this year compared to previous Thresholds Reviews owing to the use of a new internal model by DWP. Our new model replaces the previous one, designed for the rollout of automatic enrolment, with a more accurate assessment of costings using the latest data available since full implementation.

The main differences to the methodology used in previous years are:

- We now take account of evidence showing automatic enrolment has increased participation among those outside of the eligibility rules. This reduces the estimated impact of changes to the earnings trigger as many of those who become eligible will already be participating.
- We now estimate the impact of changing the earnings trigger on participation using detailed data on participation rates rather than a single opt-out rate.
- We make greater use of recent individual-level data showing some employers/individuals make contributions on earnings below the lower earnings limit and/or above the upper earnings limit. This improves our estimates of the impact of changes to the lower and upper earnings limits as we are better able to account for individuals unaffected by the changes.
- We no longer use as our baseline the “target population” of individuals who are newly saving or saving more due to automatic enrolment. The baseline levels of participation and contributions shown in the results are the total amounts for all private sector employees, and consequently are much higher than figures given as baselines in analysis accompanying previous years’ reviews. The reason for this change is that with data since the full implementation of automatic enrolment available, the current population of savers is a more meaningful and comprehensive baseline than projections on those that would be affected by the policy that were necessary to use during rollout of the policy.

We will continue to use the new model in future Thresholds Reviews, and in related analysis.

Sources of uncertainty

There are a number of sources of uncertainty in the analysis, some of which are greater than in previous years, such as factors arising due to the Covid-19 pandemic. The main sources of uncertainty are:

- The approximation of real-world changes by modelling techniques. As described above, this year’s analysis has been carried out using a new DWP

model with changes to the previous methodology that improve the accuracy of costings.
- Statistical sampling uncertainty arising from the use of survey data. This uncertainty is greater when sample sizes are smaller. This means for example that the equalities impact assessments are more uncertain for changes to the thresholds which affect fewer individuals.
- The accuracy of economic forecasts used in the model. There is a higher than usual level of uncertainty in these forecasts this year due to Covid-19 and Brexit.
- The validity of behavioural assumptions. This uncertainty may be greater this year if past data on the impact of automatic enrolment on individuals' pensions savings behaviour is a poor indicator of their behaviour in response to policy changes made during the Covid-19 pandemic. We review the behavioural assumptions in our modelling against available data on a regular basis.

Results

A – Trends in Pension Saving

In April 2019 the minimum contributions for a qualifying pension scheme rose to 8% (on a band of earnings). There have been no further increases to the minimum contribution rates since then, so the increase in the estimate of contribution costs this year relative to the previous year is driven by earnings growth. Table 2 compares the pension contributions under the baseline thresholds in 2020/21 and 2021/22, showing a £2.1 billion increase in pension saving.

As discussed in the Methodology section, the baseline levels of workplace pension savings shown here consist of all contributions by private sector employers and employees, and are not comparable with baseline figures shown in the analysis accompanying previous Thresholds Reviews. Baseline figures in previous years referred only to those additional contributions estimated to have occurred due to automatic enrolment.

Table 2 - Increase in total pension contributions from private sector employers, individuals and initial impacts on income tax relief. 2020/21 and 2021/22 (£ million)

	Employer Contributions	Employee Contributions	Income Tax Relief	Total Contributions	Employer Tax Relief
Baseline Thresholds - Level of Pension Saving in 2020/21	£36,700m	£18,700m	£7,000m	**£62,500m**	£2,600m
Baseline Thresholds - Level of Pension Saving in 2021/22	£37,900m	£19,300m	£7,400m	**£64,600m**	£2,700m
Difference	+£1,200m	+£500m	+£400m	**+£2,100m**	+£100m

Source: DWP Modelling

Notes:

1. To estimate the baseline level of pension saving in 2021/22, the 2020/21 thresholds are uprated in line with earnings growth as forecast in the OBR estimates as of November 2020 (1.17% earnings growth from quarter 4 2019 to quarter 4 2020), and employee earnings are increased by a combination of OBR forecasts and National Minimum Wage/National Living Wage increases.
2. Amounts saved are rounded to the nearest £100m. Figures may not sum due to rounding.
3. Total contributions is the sum of employer contributions, employee contributions, and income tax relief on the employee’s contribution.

B - Impact of Proposed Thresholds for 2021/22

The proposed thresholds for 2021/22 are:

(i) retaining the 2020/21 automatic enrolment earnings trigger (£10,000),
(ii) aligning the LEL with the 2021/22 National Insurance Lower Earnings Limit (£6,240), and
(iii) aligning the UEL with the 2021/22 National Insurance Upper Earnings Limit (£50,270).

Table 3 compares the impact of the baseline to the proposed thresholds on employers, employees, and government. This information is also presented in Chart 1.

Under the proposed thresholds, the overall level of pension contributions is estimated to be £64,600 million in 2021/22, £14 million higher than the baseline thresholds at 2021/22 levels in equivalent earnings terms. This increase consists of £5 million in employer contributions, £8 million in employee contributions, and £1 million in income tax relief on the employee's contribution.

Table 3 – Estimated impacts of changes to the earnings trigger and upper and lower limits of the qualifying earnings band on contributions from private sector employers, employees and tax-relief (in 2021/22)

Earnings Trigger	Qualifying Earnings Band Lower Limit	Qualifying Earnings Band Upper Limit		Participants	Employer Contributions	Employee Contributions	Income Tax Relief	Total Contributions	Employer Tax Relief
£10,117	£6,313	£50,583	**Baseline** (2020/21 thresholds in 2021/22 earnings terms)	15,400,000	£37,900m	£19,300m	£7,400m	**£64,600m**	£2,700m
£10,000	£6,240	£50,270	**Proposed** 2021/22	+8,000	+£5m	+£8m	+£1m	**+£14m**	-

Source: DWP Modelling

Notes:

1. Scenarios after the baseline present the change in costs when compared to the baseline.
2. Number of participants are rounded to the nearest 100,000 and the nearest 1,000 for the difference from baseline. Amounts saved are rounded to the nearest £100m for the baseline and the nearest £m for differences to baseline, with amounts between +/- £0.5m replaced by dashes. Figures may not sum due to rounding.
3. The baseline scenario is that all thresholds rise in line with earnings growth as forecast in the OBR estimates as of November 2020 (1.17% earnings growth from quarter 4 2019 to quarter 4 2020).
4. To estimate tax relief, we make assumptions on the proportion of low earners saving through Relief at Source pension schemes consistent with figures used in the HM Treasury Call for Evidence on pensions tax relief administration. https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence

C - Impact of Changing the Earnings Trigger in 2021/22

Table 4 shows the impact on employers, individuals, and government associated with the various options for the value of the earnings trigger in 2021/22. These are isolated effects – both the LEL and UEL remain unchanged compared to the baseline.

Freezing the threshold at £10,000 increases the number of individuals saving into a workplace pension by approximately 8,000. Pension participation increases because earnings growth brings some individuals' pay above the £10,000 trigger in 2021/22. This will increase total contributions by an estimated £6m.

The estimated impact of freezing the trigger for 2021/22 compares to the estimate in the 2020/21 Thresholds Review that freezing the trigger that year would increase participation by around 80,000. This large difference results from the low recent levels of earnings growth[9], and the changes noted in the Methodology section on the improved use of data available since the full implementation of automatic enrolment. There are also additional sources of uncertainty to the figures this year such as the Covid-19 pandemic, as discussed in the Methodology section.

Lowering the earnings trigger would increase pension participations among lower earners. For example, aligning the earnings trigger with the NI Lower Earnings Limit would increase the participants by 284,000 people, increasing total contributions by £110m.

Conversely, raising the earnings trigger would decrease pension participation. For example, aligning the earnings trigger with the Personal Income Tax Allowance would decrease the number of savers into a workplace pension by an estimated 175,000 people, reducing total pension saving by £166m.

The main section of this publication lays out the reasons behind the Secretary of State's decision to freeze the earnings trigger at £10,000 for 2021/22 in order to bring as many people into automatic enrolment as possible who will benefit from saving, while avoiding the automatic enrolment of those unlikely to benefit.

[9] The November 2020 OBR forecast earnings growth of 1.17% from 2019 Q4 to 2020 Q4 was used this year, compared to the March 2019 OBR forecast growth of 2.69% from 2018 Q4 to 2019 Q4 last year.

The government recognises the different impacts of the two systems of paying pension tax relief on pension contributions for workers earning below the personal allowance. To date, it has not been possible to identify any straightforward or proportionate means to align the effects of the net pay and relief at source mechanisms more closely for this population. The Government launched a Call for Evidence on pensions tax relief administration on 20 July 2020[10] which closed on 13 October 2020 and is now considering the responses received.

The Pensions Regulator (TPR) provides guidance to employers on choosing a pension scheme for their staff in order to discharge their statutory obligations under automatic enrolment. This guidance covers the choice between net pay and relief at source schemes, and the implications for employees who do not pay income tax. More information can be found here on the TPR website[11].

[10] https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence
[11] https://www.thepensionsregulator.gov.uk/en/employers/new-employers/im-an-employer-who-has-to-provide-a-pension/choose-a-pension-scheme/what-to-look-for-in-a-pension-scheme

Table 4 - Estimates of the direct impact of changing the earnings trigger on contributions from private sector employers, employees and tax relief (in 2021/22)

Earnings Trigger	Rationale	Participants	Employer Contributions	Employee Contributions	Income Tax Relief	Total Contributions	Employer Tax Relief
£10,117 (Baseline)	Current Trigger (2020/21) uprated by earnings	15,400,000	£37,900m	£19,300m	£7,400m	**£64,600m**	£2,700m
£6,240	NI Lower Earnings Limit (2021/22)	+284,000	+£39m	+£65m	+£6m	**+£110m**	+£3m
£9,568	NI Primary Threshold (2020/21)	+ 49,000	+£12m	+£21m	+£2m	**+£35m**	+£1m
£10,000	Freeze 2020/21 trigger	+ 8,000	+£2m	+£4m	-	**+£6m**	-
£10,051	Uprate by estimated price inflation (CPI)	+ 5,000	+£2m	+£2m	-	**+£4m**	-
£12,570[8]	Income Tax Personal Allowance (19/20)	- 175,000	-£90m	-£69m	-£7m	**-£166m**	-£6m

Source: DWP Modelling

Notes:
1. Scenarios after the baseline present the change in costs when compared to the baseline.
2. Number of participants are rounded to the nearest 100,000 and the nearest 1,000 for the difference from baseline. Amounts saved are rounded to the nearest £100m for the baseline and the nearest £m for differences to baseline, with amounts between +/- £0.5m replaced by dashes. Figures may not sum due to rounding
3. The OBR's November 2020 forecast for earnings growth between 2019Q4 and 2020Q4 of 1.17 per cent was used.
4. The OBR's November 2020 forecast for CPI of 0.51% between 2019Q4 and 2020Q4 of 0.51 per cent was used.
5. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
6. Employer tax relief represents 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 employees.
7. To estimate tax relief, we make assumptions on the proportion of low earners saving through Relief at Source pension schemes consistent with figures used in the HM Treasury Call for Evidence on pensions tax relief administration. https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence
8. £12,570 is a DWP estimate based on the 2020 Spending Review announcement that the personal allowance will increase in line with CPI.

D – Impact of Changing the Lower Limit of the Qualifying Earnings Band in 2021/22

Table 5 shows the impact on employers, employees and government associated with the baseline thresholds and various options considered for the value of the 2021/22 qualifying earnings band lower limit. As before, these are the impacts of isolated LEL changes. Unlike the earnings trigger, changing the LEL does not directly impact the number of people participating in a workplace pensions.

Total pension saving increases as the LEL decreases (compared to the baseline), as pension contributions are paid on a larger proportion of an individual's income. Aligning the lower limit of the qualifying earnings band with the National Insurance Lower Earnings Limit of £6,240 represents a slight decrease against the baseline threshold, so it results in an increase in pension saving by around £16 million when compared to the baseline scenario.

Increasing the LEL would reduce total pension saving. For example, aligning the LEL with the 2021/22 NI Primary Threshold of £9,568 would reduce total pension saving by £719 million when compared to the baseline scenario. It would be inconsistent with the Government's 2017 AE Review ambitions and disproportionately impact on low earning savers.

Table 5 - Estimates of the direct impact of changing the lower limit of the qualifying earnings band on contributions from private sector employers, employees and tax relief (in 2021/22)

Qualifying earnings band LEL	Rationale	Employer Contributions	Employee Contributions	Income Tax Relief	Total Contributions	Employer Tax Relief
£6,313 (Baseline)	Current LEL (2020/21) uprated by earnings inflation	£37,900m	£19,300m	£7,400m	**£64,600m**	£2,700m
£6,240	NI Lower Earnings Limit (2021/22)	+£7m	+£7m	+£2m	**+£16m**	+£1m
£9,568	NI Primary Threshold (2021/22)	-£319m	-£316m	-£84m	**-£719m**	-£23m

Source: DWP Modelling

Notes:
1 Scenarios after the baseline present the change in contributions when compared to the baseline
2 Number of participants are rounded to the nearest 100,000 and the nearest 1,000 for the difference from baseline. Amounts saved are rounded to the nearest £100m for the baseline and the nearest £m for differences to baseline. Figures may not sum due to rounding.
3 The earnings trigger and UEL are held constant at their 2020/21 levels uprated in line with earnings growth, to isolate the impact of changes to the LEL.
4 Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
5 Employer tax relief represents the tax no longer paid by employers who respond to the additional pension contribution requirements of the workplace pension reforms by reducing profits or wages paid to their employees.
6 To estimate tax relief, we make assumptions on the proportion of low earners saving through Relief at Source pension schemes consistent with figures used in the HM Treasury Call for Evidence on pensions tax relief administration. https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence

E – Impact of Changing the Upper Limit of the Qualifying Earnings Band in 2021/22

Table 6 shows the impact on employers, employees and government associated with the baseline upper earnings limit and various options considered for its value in 2021/22, where these changes are made in isolation.

Increasing the UEL increases total pension saving, because it increases the amount of income on which employers and employees pay contributions. Like the LEL, changing the UEL does not affect pension participation.

Aligning the upper limit of the qualifying earnings band with the National Insurance Upper Earnings Limit of £50,270 represents a decrease against the baseline threshold. This would decrease total contributions by approximately £8m against the baseline scenario. Of this, employers would approximately contribute £4m less while employees would contribute £3m less, with the rest coming from a reduction in income tax relief by the government.

Table 6 - Estimates of the direct impact of changing the upper limit of the qualifying earnings band on contributions from private sector employers, employees and tax relief (in 2021/22)

Qualifying earnings band UEL	Rationale	Employer Contributions	Employee Contributions	Income Tax Relief	Total Contributions	Employer Tax Relief
£50,583 (Baseline)	Current UEL (2020/21) uprated by earnings inflation	£37,900m	£19,300m	£7,400m	**£64,600m**	£2,700m
£50,000	Freeze 2020/21 UEL	-£8m	-£5m	-£2m	**-£16m**	-£1m
£50,270	NI Upper Earnings Limit (2020/21)	-£4m	-£3m	-£1m	**-£8m**	-

Source: DWP Modelling

Notes:

1. Scenarios after the baseline present the change in costs when compared to the baseline
2. Number of participants are rounded to the nearest 100,000 and the nearest 1,000 for the difference from baseline. Amounts saved are rounded to the nearest £100m for the baseline and the nearest £m for differences to baseline, with amounts between +/- £0.5m replaced by dashes. Figures may not sum due to rounding.
3. The earnings trigger and LEL are held constant at their 2020/21 levels uprated in line with earnings growth, to isolate the impact of changes to the UEL.
4. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
5. Employer tax relief represents 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 employees.
6. To estimate tax relief, we make assumptions on the proportion of low earners saving through Relief at Source pension schemes consistent with figures used in the HM Treasury Call for Evidence on pensions tax relief administration. https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence

Annex A – Equalities Impacts on Affected Groups

Introduction

This section describes the estimated impact of the changes to the automatic enrolment earnings thresholds on the demographics of private sector pension savers.

The demographic breakdowns for the following characteristics are presented:

a) Women
b) Age
c) Those from Black, Asian and minority ethnic (BAME) backgrounds
d) Those with a disability

There is no available data to assess the impact of changes by other protected characteristics.

Table 7 shows the estimated impact by gender and age on the pension participants from changes to the earnings trigger relative to baseline. The qualifying earnings bands do not impact participation and are therefore not included in this table. Table 8 shows the estimated impacts by gender and age on total contributions for all threshold changes listed in the Results section.

In table 7, the demographic impacts of every scenario after baseline are shown using the proportion of additional/fewer participants under that scenario belonging to each demographic group. For example, as a result of freezing the trigger at £10,000, pension participants increase by 8,000 and 72% of them are female. Similarly, table 8 shows what proportion of increased/decreased contributions under each scenario come from each demographic group.

Table 9 shows the estimated impact by ethnicity and disability. As these characteristics are not present in the data used in our main modelling, we use estimates of the characteristics of those whose eligibility for automatic enrolment changes due to changes in the earnings trigger as a proxy for the impact on participation. Impacts by contributions are not available. As the qualifying earnings bands do not affect eligibility, they are not included.

Women

Table 7 shows that approximately 43 per cent of participants under the baseline scenario are women. Women are under-represented in this group because they are less likely to work in the private sector, and because they are more likely to work part-time where pension participation is lower[12].

Freezing the trigger or reducing it further from the baseline would bring more women into workplace pension participation. For example, over 70% of new participants in pension saving as a result of reducing the earnings trigger to the LEL are women. Under the proposal to freeze the trigger, we estimate around three quarters of new participants would be women.

As shown in table 8, we estimate 42% of the additional contributions from maintaining the link to National Insurance thresholds for the LEL to come from women, while only 27% of the decrease in contributions from maintaining that link for the UEL. This is because men make up a larger proportion of high earners affected by changes to the UEL. Overall, two thirds of the additional contributions from the proposed threshold changes come from women.

Age

Approximately half of participants under the baseline scenario are people between the age of 30 and 49. This age group contributed more than half of the total contributions under the baseline threshold.

Under the proposal to freeze the trigger at £10,000, and other scenarios lowering the trigger relative to earnings, we estimate that the group of new participants would have proportionately fewer people aged under 30, and proportionately more people aged 50 and over, than the population of existing savers.

Of the estimated additional £14m total contributions from all proposed threshold changes together, around one quarter comes from individuals aged under 30, which is around twice as much as the proportion of existing total contributions from this age group. This is in part due to the fact that only 9% of the reduction in contributions arising from maintaining the upper earnings limit link to National Insurance comes from this group.

[12] See ONS statistics: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2019provisionaland2018finalresults

Ethnicity

Table 9 shows that Black, Asian and minority ethnic people make up a slightly higher proportion of the population made newly eligible by lowering the trigger than they do of the existing eligible population. For example, we estimate that if the trigger was lowered to the level of the National Insurance lower earnings limit, 15% of the newly eligible individuals would be from these ethnic groups compared to 12% of the existing eligible population. Figures for the proposal to freeze the trigger are not available due to small sample sizes.

Disability

People with a disability make up 16% of the eligible population under the baseline scenario. Table 9 shows that they make up a higher proportion of those who would be made eligible by lowering the trigger. For example, we estimate that if the trigger was lowered to the level of the National Insurance lower earnings limit, 26% of the newly eligible individuals would have a disability. Figures for the proposal to freeze the trigger are not available due to small sample sizes.

Table 7 - Equalities impact of threshold changes on participants – age and gender

Scenario	Participants			
	Number	**Percentage female**	**Percentage aged <30**	**Percentage aged 50+**
Baseline saving in 2021	15,400,000	43%	21%	29%
Differences from baseline:				
Combined proposed thresholds	+8,000	72%*	13%*	41%*
Freeze trigger (£10,000)	+8,000	72%*	13%*	41%*
Increase trigger by CPI (£10,051)	+5,000	75%*	16%*	40%*
Align trigger to NI Primary Threshold (£9,568)	+49,000	72%	16%	35%
Align trigger to Personal Allowance (£12,570)[6]	-175,000	76%	16%	36%
Align trigger to LEL (£6,240)	+284,000	71%	18%	35%

Source: ASHE 2019 and DWP Modelling

Notes

1. The Number column shows the number of participants under baseline rounded to the nearest 100,000, and the change in participants as a result of changes to the thresholds rounded to the nearest 1,000.
2. Percentages show the percentage of participants under baseline from each demographic group, and the percentage of additional/fewer participants under changes to the baseline from each group, both rounded to the nearest percentage point.
3. The baseline saving scenario is that all thresholds rise in line with earnings growth as forecast in the OBR estimates as of November 2020 (1.17% earnings growth from quarter 4 2019 to quarter 4 2020). Scenarios except combined proposed thresholds keep thresholds not specified at baseline levels
4. The OBR's November 2020 forecast for CPI of 0.51% between 2019Q4 and 2020Q4 of 0.51 per cent was used.
5. Figures marked * carry a relatively high degree of uncertainty due to small sample sizes.
6. £12,570 is a DWP estimate based on the 2020 Spending Review announcement that the personal allowance will increase in line with CPI.

Table 8 - Equalities impact of threshold changes on total contributions – age and gender

Scenario	Contributions Amount	Percentage female	Percentage aged <30	Percentage aged 50+
Baseline saving in 2021	£64,600m	35%	12%	35%
Differences from baseline:				
Combined proposed thresholds	+£14m	66%	24%	31%
Freeze trigger (£10,000)	+£6m	76%*	12%*	35%*
Increase trigger by CPI (£10,051)	+£4m	74%*	11%*	38%*
Align trigger to NI Primary Threshold (£9,568)	+£35m	72%	17%	31%
Align trigger to Personal Allowance (£12,570)[6]	-£166m	78%	14%	38%
Align trigger to LEL (£6,240)	+£100m	75%	20%	30%
Align LEL to NI LEL (£6,240)	+£16m	42%	21%	29%
Align LEL to NI Primary Threshold (£9,568)	-£719m	49%	21%	29%
Align UEL to NI UEL (£50,270)	-£8m	27%	9%	31%
Freeze UEL (£50,000)	-£16m	27%	9%	31%

Source: ASHE 2019 and DWP Modelling

Notes

1. The Amount column shows the amount of total contributions under baseline rounded to the nearest £100m, and the change in total contributions as a result of changes to the thresholds rounded to the nearest £m.
2. Percentages show what percentage of total contributions under baseline comes from each demographic group, and what percentage of additional/reduced contributions under changes to the thresholds comes from each group, both rounded to the nearest percentage point.
3. The baseline saving scenario is that all thresholds rise in line with earnings growth as forecast in the OBR estimates as of November 2020 (1.17% earnings growth from quarter 4 2019 to quarter 4 2020). Scenarios except combined proposed thresholds keep thresholds not specified at baseline levels.
4. The OBR's November 2020 forecast for CPI of 0.51% between 2019Q4 and 2020Q4 of 0.51 per cent was used.
5. Figures marked * carry a relatively high degree of uncertainty due to small sample sizes.
6. £12,570 is a DWP estimate based on the 2020 Spending Review announcement that the personal allowance will increase in line with CPI.

Table 9 - Equalities impact of earnings trigger changes – ethnicity and disability

Scenario	Participants[1]	Eligible Employees[2]: Percentage BAME	Eligible Employees[2]: Percentage with disability
Baseline saving in 2021	15,400,000	12%	16%
Differences from baseline:			
Freeze trigger (£10,000)	+8,000	..	..
Increase trigger by CPI (£10,051)	+5,000	..	..
Align trigger to NI Primary Threshold (£9,568)	+49,000	13%*	27%*
Align trigger to Personal Allowance (£12,570)[7]	-175,000	15%	25%
Align trigger to LEL (£6,240)	+284,000	15%	26%

Source: ASHE 2019, LFS 2019/20 and DWP Modelling

Notes

1. The Participants column shows the number of participants under baseline rounded to the nearest 100,000, and the difference from baseline as a result of changes to the thresholds rounded to the nearest 1,000. These figures are estimated from ASHE 2019 and DWP modelling.
2. Information on ethnicity and disability is not present in the ASHE data used to estimate changes to participation. The proxy measure used instead is the impact on eligible employees using LFS data. See the Methodology section of this document. Percentages show the percentage of eligible employees under baseline from each demographic group, and the percentage of additional/fewer eligible employees under changes to the baseline from each group, both rounded to the nearest percentage point.
3. The baseline saving scenario is that all thresholds rise in line with earnings growth as forecast in the OBR estimates as of November 2020 (1.17% earnings growth from quarter 4 2019 to quarter 4 2020).
4. The OBR's November 2020 forecast for CPI of 0.51% between 2019Q4 and 2020Q4 of 0.51 per cent was used.
5. Demographic breakdowns for the freeze trigger and increase trigger by CPI scenarios are not available due to very small sample sizes.
6. Figures marked * carry a relatively high degree of uncertainty due to small sample sizes.
7. £12,570 is a DWP estimate based on the 2020 Spending Review announcement that the personal allowance will increase in line with CPI.

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