9th March 2015

Dear Maervy,

THE AUTOMATIC ENROLMENT (EARNINGS TRIGGER AND QUALIFYING EARNINGS BAND) ORDER 2015

During the course of our debate on Wednesday 25th February, I offered to write to clarify a couple of points regarding the number of women eligible for automatic enrolment and on the planned changes to the contribution rates.

On the first point, we estimate that 10 million people will be eligible for automatic enrolment when it is fully rolled out, of whom 37% are women. Of these we estimate that 8-9 million will be newly saving or saving more as a result of automatic enrolment, of whom approximately 3 million will be women.

Whist the Government recognises that low are earners are more likely to be women and will therefore be disproportionately represented in the group excluded from automatic enrolment, we don’t think that lowering the trigger is appropriate or necessary.

Low earners tend to find that State pensions provide them with an income in retirement similar to that in working life so, in setting the earnings trigger, we need to consider whether it is appropriate for lower earners to save at a time when they may need to use all their income to meet their family’s present living costs. This is pertinent to my second point on contribution rates which are being phased in between now and 2018. Whilst minimum employer contributions are currently at 1% of banded earnings, this will rise to 3% from October 2017 and 5% from October 2018. We need to bear this increase in mind when deciding who should be automatically enrolled.

Finally, I think it’s worth reiterating that the exclusion is from automatic enrolment and not from pension saving, anyone with earnings over £5,824

Baroness Sherlock OBE
will retain the right to opt-in with an employer contribution. We remain convinced that freezing the trigger at £10,000 achieves the Government’s aims of maximising pension saving for those who will benefit and excluding those who will not.

A copy of this letter will be placed in the House Library and sent to Baroness Drake.

LORD BOURNE OF ABERYSTWYTH