Department for Work & Pensions

Review of the automatic enrolment earnings trigger and qualifying earnings band for 2018/19: supporting analysis

December 2017

Contents

Background

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

The automatic enrolment earnings trigger is one of the criteria which determines who is eligible to be automatically enrolled into a workplace pension by their employer. The qualifying earnings band is the band of earnings between upper and lower limits set in legislation and reviewed annually in respect of which contributions are made. The lower earnings level of the band is also relevant to defining who falls into the category of 'non-eligible job-holders' who can opt-in with a mandatory employer contribution if they earn between the Lower Earnings Limit and the earnings trigger. It is a statutory requirement that the Secretary of State reviews these thresholds in each tax year taking into account statutory criteria every year.

Automatic enrolment is being introduced gradually for all employers and eligible employees. The programme began its roll-out in October 2012 when the largest employers were required to meet their automatic enrolment duties and will continue until the process is complete. This process is called "staging" - the staggered introduction of the new employer duties, starting with the largest employers and working to the smallest due to conclude by March 2018. As at the end of November 2017, over 9 million people have been automatically enrolled and more than 900,000employers have met their duties[1]. The government's estimates are that around 10 million people will be newly saving or saving more by the time staging is complete.

The Pensions Act 2011 aligned the earnings trigger for automatic enrolment with the Personal Income Tax Threshold. Since then the government has consulted on the earnings thresholds as part of the statutory annual review three times during the first six years of programme roll-out. The most recent consultation was for the 2015/16 review following which it was determined that the earnings trigger was to be frozen at £10,000 and to maintain the alignment with National Insurance Contributions for the upper and lower limits regarding qualifying band earnings, a position that was maintained in both the 2016/17 and 2017/18 reviews. All previous years reports are available at https://www.gov.uk/government/collections/automatic-enrolment-earnings-trigger-and-qualifying-earnings-band. The government has not formally consulted on the 2018/19 review of the automatic enrolment earnings thresholds. It has, however, drawn on the evidence gathered as part of the wider *Automatic*

[1] AE Declaration of Compliance Report, July 2012 – end November 2017, The Pensions Regulator. See: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf

Enrolment Review 2017: Maintaining the Momentum– which specifically sought views on the earnings trigger and thresholds – to inform this year's decision[2].

Automatic Enrolment Thresholds Review for 2018/19 and the Automatic Enrolment Review 2017

The review of the automatic enrolment earnings trigger and qualifying earnings band for 2018/19 and the Automatic Enrolment Review 2017 are two separate reviews that were undertaken concurrently during 2017. The government has published the Automatic Enrolment Review 2017 report alongside this annual thresholds review. The Automatic Enrolment Review 2017 has considered the policy and the operation of automatic enrolment. In particular, it has focused on three key themes related to the policy: coverage, contributions and engagement. The review of the automatic enrolment earnings trigger and qualifying earnings band for 2018/19 has focussed on the statutory requirement to review the automatic enrolment thresholds each year.

The Automatic Enrolment Review 2017 gathered views from a range of stakeholders including those who represent the interests of employers, industry and individuals, such as the TUC, CBI, ICAEW and many British insurers, a number of which related to the automatic enrolment thresholds. The Department has explored these further through extensive engagement with interested parties. Some stakeholders supported retention of the current trigger both to manage employer costs as well as ensuring only those who can afford to save would be brought into retirement saving via automatic enrolment. Others supported a reduction in the trigger so a greater number of lower earners and multiple jobholders were brought into the ambit of automatic enrolment. Only a very small minority favoured realigning the earnings trigger with the Personal Income Tax threshold. The government has given careful considerations to all representations made and remains sensitive to issues around the affordability of contributions for both individuals and employers. Whilst maintaining the affordability of automatic enrolment is a key function of the earnings trigger and qualifying earnings band, the government's view remains that the overriding factor should be to ensure that people are enabled to build up greater security in retirement.

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

Annual review

Within the review of the automatic enrolment earnings trigger and qualifying earnings band for 2018/19 the Secretary of State has some flexibility in the level to which the amounts for the earnings trigger and qualifying earnings band are set[3]. 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. This statutory review will continue each year as the law requires. Whilst decisions are made for this year 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, including through the Automatic Enrolment Review 2017. 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.

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:

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 an appropriate gap between the lower limit of the qualifying earnings band and the earnings trigger.

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

[3] '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.'
Pension Act 2008: http://www.legislation.gov.uk/ukpga/2011/19/contents/enacted

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 2018/19.

Conclusions

Earnings trigger

The earnings trigger ultimately governs who gets enrolled into a workplace pension scheme through automatic enrolment. As the Automatic Enrolment Review 2017 has confirmed, the government remains of the position 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 and the predominant impact will be upon people for whom it could make little economic sense to divert income away from their day to day needs, and this could potentially result in some individuals making a conscious decision to opt-out.

The Secretary of State has considered the latest analytical evidence, the policy objectives and the evidence received during the course of the Automatic Enrolment Review 2017 and concluded that the existing threshold of £10,000 remains the correct level at this point of the automatic enrolment programme and will not change for 2018/19. This represents a real terms decrease in the value of the trigger when combined with assumed wage growth and will bring in an additional 0.10m individuals into the target population with total pension savings increasing by an estimated £41m in 2018/19. 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 enter their retirement. It also reflects the need for stability at this point of the programme roll out with the first phased increase in contributions due to take place in the 2018/19 tax year[4]. It also continues to provide consistency of messaging for both employers and jobholders against this wider change. The Department has also assessed the equality impacts associated with this decision which are detailed later in this report.

The government also remains of the position that voluntary opt-in provides the most appropriate option for those earning less than the earnings trigger during 2018/19

[4] Minimum contributions will reach 5 per cent of band earnings in April 2018 and 8 per cent in April 2019.

who wish to save, and that it is beneficial to these individuals who wish to do so. There are no plans to change this. Research published by the IFS in 2016[5] shows that automatic enrolment has increased workplace pension membership by 29 percentage points among those earning under £10,000 per year (compared to a baseline of 18 per cent prior to the reform). Feedback from stakeholders suggests that many employers may be contractually enrolling their non-eligible and entitled jobholders.

However, it is important that full consideration is paid to the future annual reviews as a result of the economic climate and the continued evolution of automatic enrolment. Future reviews may allow for adjustments to be made following on from the completion of staging, phasing and future changes resulting from the Automatic Enrolment Review 2017 amongst other issues. The government has accounted for the impact of the National Living Wage when considering what the earnings trigger should be and will continue to monitor the impact of this on low earnings and the interaction between this and the automatic enrolment earnings trigger.

Qualifying earnings band - lower limit

Workplace pension saving is one of the key building blocks of a more secure retirement income. Automatic enrolment into a workplace pension with an employer contribution in addition to that of an individual – plus in most cases tax relief from the government – is intended to build on the foundation of state pension entitlement. The lower limit of the qualifying earnings band influences the minimum amount that people have to save and minimum employer contributions.

The Secretary of State has considered all review factors against the analytical evidence and the work carried out as part of the Automatic Enrolment Review 2017 and has decided to maintain the link with the National Insurance Contributions Lower Earnings Limit at its 2018/19 value of £6,032 as the lower limit of the qualifying earnings band for 2018/19. It is important to be clear that the proposal to remove the Lower Earnings Limit within the Automatic Enrolment Review 2017 is setting the future direction for the policy. The government proposes to make this change in the mid-2020s, in light of learning from the phased contribution increases and following full discussions with stakeholders, with a formal consultation taking place in due course. The Automatic Enrolment Review 2017 does not pre-empt any future thresholds decision that may be taken by the Secretary of State between now and any future legislation which would need to be enacted to remove the lower limit of the qualifying earnings band. The findings from the formal consultation, will be used to enhance the evidence base for future statutory reviews of the automatic enrolment thresholds and inform future decisions.

[5] IFS Working Paper (W16/19), 'What happens when employers are obliged to nudge? AE and pension saving in the UK': http://www.ifs.org.uk/publications/8723

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 2018/19 value of £46,350 (up from its 2017/18 value of £45,000) is the factor that should determine the upper limit of the qualifying earnings band.

Proposed thresholds for 2018/19

The current (2017/18) and proposed (2018/19) 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 (2016/17)	£10,000	£5,876	£43,000
Proposed (2018/19)	£10,000	£6,032	£46,350

These decisions have been reached as a result of several key considerations. Firstly, stability for employers is crucial, with staging not yet complete and the phasing (the planned increases in minimum contribution rates for qualifying scheme) of contributions set to begin in April 2018. The Automatic Enrolment Review 2017 highlights the need for stability as the post staging period of the policy is implemented. Removing the immediate prospect of additional change from employers when they are preparing for the upcoming contribution increases will allow for a smooth transition into the start of phasing while still providing a meaningful level of contributions for savers. Additionally, the current triggers and limits are understood and will continue to provide an important element of consistency for both employers and individuals in the coming year while still striking a balance between providing meaningful levels of saving and affordability.

Methodology

The estimates presented here are the changes in pension contributions resulting from the proposed changes to the automatic enrolment thresholds. The changes in pension contributions are calculated as the estimated difference in total contributions under the baseline and proposed thresholds.

The **baseline thresholds** for 2018/19 are the 2017/18 thresholds uprated in line with forecast private sector earnings growth, i.e. holding last year's thresholds constant in real earnings terms. The OBR's forecast for private sector earnings growth between 2016Q4 and 2017Q4 of 2.99 per cent was used.

Three types of **options** are considered for the 2018/19 thresholds. First, freezing the thresholds at their 2017/18 level; second, setting the thresholds in line with National Insurance or tax thresholds; and third, uprating the 2017/18 thresholds by some index (e.g. CPI, RPI, etc.). Different combinations of these types of options are presented for each threshold.

There are three elements to each estimate. The first are estimates of the additional **employer and individual contributions** as a result of the proposed changes to workplace pension reforms.

They are calculated using:

- Estimates of the number of private sector employees for and from whom additional contributions are due by 2018/19 – based on Department for Work and Pensions (DWP) modelling.
- Private sector employees' average earnings estimated using the Annual Survey of Hours and Earnings (ASHE) data[6] for the year 2012/13 to establish the pensions landscape prior to the implementation of automatic enrolment.
- Estimates of the bands of earnings on which individuals are making pension contributions, based on ASHE 2016 data[7].

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

[7] Since the previous iteration of this review for 2017/18, we have revised the way that we estimate the bands of earnings that individuals make pension contributions on, and by extension the resulting level of pension saving. In previous iterations, we assumed that individuals only made pension contributions on earnings that fell between the LEL and the UEL (i.e. on the legal minimum **qualifying band** of earnings). However, evidence from ASHE 2016 shows that around 70 per cent of eligible private sector employees saving in occupational pension schemes are making contributions from their first pound of earnings (i.e. also contributing on earnings below the LEL).

The consequence of this adjustment is a higher estimate of savings under the baseline, and that changes to the LEL have a smaller effect on savings.

- Contribution rates for employers and employees, where the minimum for a qualifying pension scheme in 2018/19 is 2 per cent contributions from employers and 3 per cent from employees (including tax relief). We use the 2015 Employer Pension Provision Survey to estimate the percentage of employers who immediately enrol their employees in schemes which contribute at or above the minimum required when the phasing in of higher contribution rates finishes in April 2019 (3 per cent for employers and 5 per cent for employees).

The second element is estimates of **income tax relief**, calculated by multiplying the estimates of individuals' additional pension contributions by the appropriate income tax rate[8].

The third element is estimates of **employer tax relief** which 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.

This is calculated by multiplying the estimates of employers' additional pension contributions by estimates of the percentage of employers who will reduce profits or wages by the appropriate rate of corporation tax or employers' national insurance contributions respectively. Estimates of the proportion of employers responding to the additional costs of the reforms by reducing profits or wages are taken from the 2015 EPP Survey[9].

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

Additionally, the above methodology is based solely on those eligible to be automatically enrolled. Data from ASHE 2016 suggest that some employers are

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This methodology is consistent with that used for the Automatic Enrolment Review 2017. For more information on this methodology see: DWP. (2017). *Automatic Enrolment Review 2017: Analytical Report*.
https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

[8] As income tax is not paid on pension contributions, income tax relief is the part of pension contributions which otherwise would have been paid in tax. This calculation assumes that all savers are in a Net Pay Arrangement (NPA), rather than a Relief at Source (RAS) system.

The impact this assumption has on the income tax relief estimation is uncertain. Those earning below the personal tax allowance and contributing to a pension receive more tax relief under a RAS system than under a NPA, while higher-rate tax payers receive less tax relief under a RAS system than an NPA.

[9] Page 60 explains employers' most likely strategy in response to the increase in total pension contribution costs resulting from automatic enrolment.
https://www.gov.uk/government/publications/employers-pension-provision-survey-2015

enrolling ineligible employees, and that some ineligible employees opt-in to their employers' pension schemes. As this group is not included in this estimate, it implies that the costings underestimate the total impact of the reforms.

Additionally, estimates of the **equalities impacts** of different thresholds are produced using 2016/17 ASHE data and the 2016/17[10] Labour Force Survey (LFS). Analysis is presented for two groups: the population eligible for automatic enrolment ("the eligible population")[11] and the population who are eligible but not currently saving in a qualifying workplace pension ("the target population")[12]. ASHE was used to analyse the eligible target population by gender and age. LFS was used to analyse the eligible population by disability status and ethnicity[13]. The breakdowns of these demographics are presented in Annex A.

[10] The data sets: April – June 2016, July – September 2016, October – December 2016 and January – March 2017 were combined to represent 2016/17.

[11] **Eligible employees** in 2017/18 are defined as those:

1. Ordinarily working in Great Britain;
2. Aged at least 22 and under State Pension Age;
3. Earning more than £10,000.

[12] The **Target population** consists of 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.

[13] The LFS does not collect data on employer contributions to pensions so it is not possible to produce analysis for the eligible target population.

Results

A – Impact of phasing – increasing statutory minimum contributions

Phasing, the increasing of the minimum contributions for a qualifying pension scheme, begins in April 2018, when minimum contributions for an employer will increase from 1 per cent to 2 per cent and for employees from 1 per cent to 3 per cent. This increase in minimum contribution rates, along with other factors like the planned completion of staging of employers in March 2018, drives a significant increase in the estimate of costs relative to last year's review.

The Department does not currently model the impact of phasing on cessation, when an individual stops saving into a pension scheme, and there is considerable uncertainty around this effect. If phasing leads to an increase in cessation of scheme membership, this would lead to lower baseline contributions than estimated here. The Department intends to closely monitor and evaluate this effect as phasing is introduced.

Table 2 compares the pension contributions under the baseline thresholds in 2017/18 and 2018/19, showing a £6,420 million increase in pension saving.

DWP Analysis[14] shows that the total amount being saved by eligible employees was £87.1 billion in 2016, an increase of £10.3 billion from 2012. By 2019/20, it is estimated there will be an extra £20 billion of workplace pension saving per year as a result of automatic enrolment[15].

[14] DWP's 'Workplace pensions participation and savings trends official statistic', June 2017: https://www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2006-to-2016

[15] This estimate of the additional saving as a result of automatic enrolment has increased from the £17 billion quoted in last year's review. More information on this change can be seen in footnote 2, and in: DWP. (2017). *Automatic Enrolment Review 2017: Analytical Report*.

Table 2 - Increase in pension contributions from employers, individuals, and government between 2017/18 and 2018/19

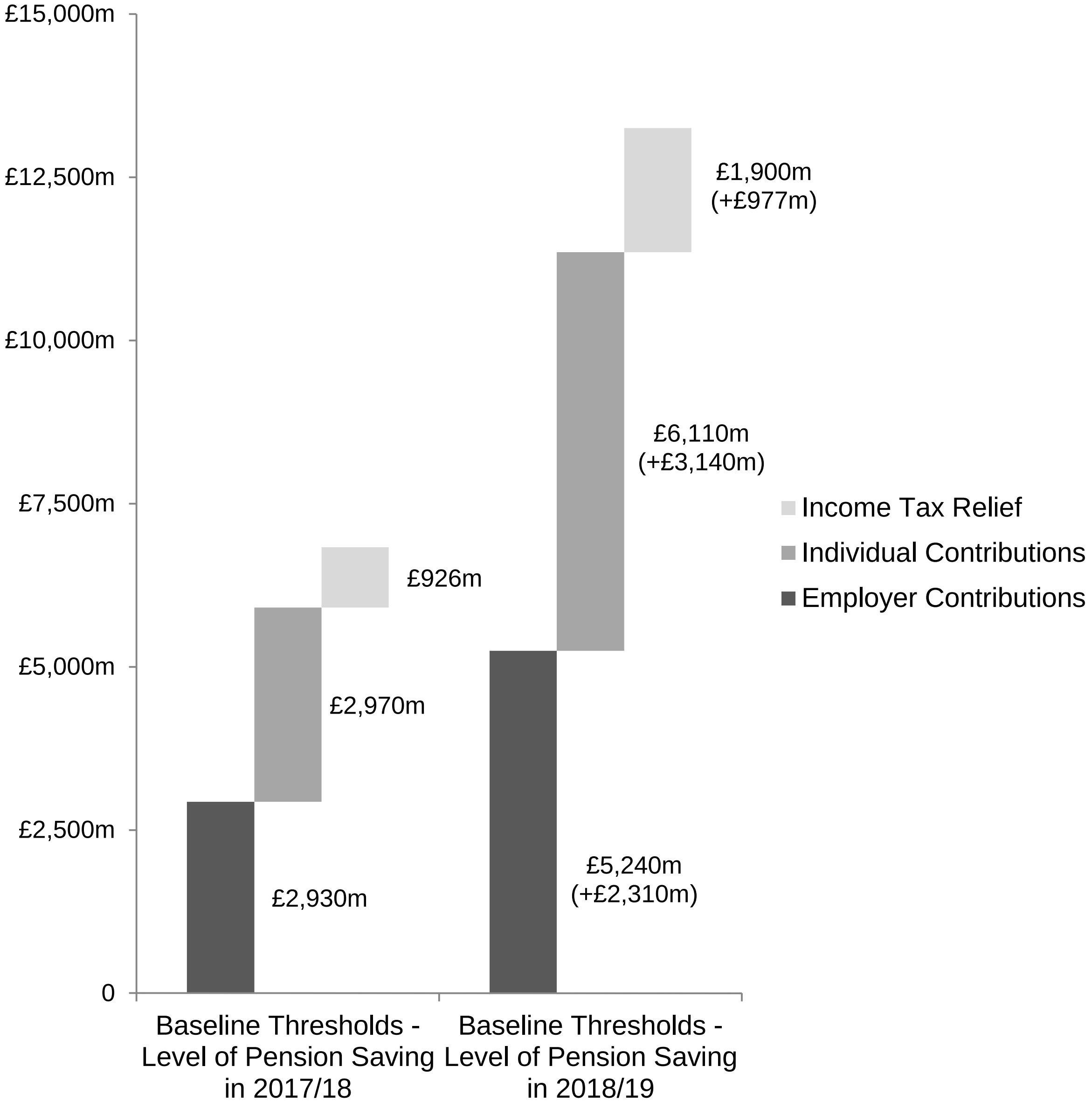
	Employer Contributions	Individual Contributions	Income Tax Relief	Total Pension Saving	Employer Tax Relief
Baseline Thresholds - Level of Pension Saving in 2017/18	£2,930m	£2,970m	£926m	£6,830m	£264m
Baseline Thresholds - Level of Pension Saving in 2018/19	£5,240m	£6,110m	£1,900m	£13,260m	£473m
Difference	+£2,310m	+£3,140m	+£977m	+£6,420m	+£208m

Source: DWP Modelling

Notes:

1. The baseline thresholds are the 2017/18 automatic enrolment thresholds; to estimate the level of pension saving in 2018/19, these thresholds are uprated in line with private sector earnings growth forecasts.
2. Figures over £1,000m are rounded to the nearest £10 million and figures below are rounded to the nearest £1 million to reflect uncertainties associated with the modelling used. They therefore may not sum exactly.
3. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief on the individual's contribution.

Chart 1 - Breakdown of contributions from employers, individuals, and government between 2017/18 and 2018/19 (£ million)



Notes:

Source: DWP Modelling

1. The baseline thresholds are the 2017/18 automatic enrolment thresholds; to estimate the level of pension saving in 2018/19, these thresholds are uprated in line with private sector earnings growth forecasts.

2. Figures over £1,000m are rounded to the nearest £10 million and figures below are rounded to the nearest £1 million to reflect uncertainties associated with the modelling used. They therefore may not sum exactly.

B - Impact of proposed thresholds for 2018/19

The proposed thresholds for 2018/19 are: (i) retaining the 2017/18 automatic enrolment earnings trigger (£10,000), (ii) aligning the LEL with the 2018/19 National Insurance Lower Earnings Limit (£6,032), and (iii) aligning the UEL with the 2018/19 National Insurance Upper Earnings Limit £46,350.

Table 3 compares the impact of the baseline to the proposed thresholds on employers, individuals, and government.

Under the proposed thresholds, the overall level of pension saving amongst the eligible target population is estimated to be £13,300 million in 2018/19, £48 million higher than it would have been if the thresholds remained at 2017/18 levels in equivalent earnings terms. This increase consists of an additional £19 million in employer contributions, £22 million in employee contributions, and £7 million in income tax relief on the individual's contribution.

Table 3 - Estimated impact of changes to the earnings trigger and upper and lower limits of the qualifying earnings band on contributions from employers, individuals and government (in 2018/19)

	Earnings Trigger	Qualifying Earnings Band Lower Limit	Qualifying Earnings Band Upper Limit	Eligible Target Group	Employer Contributions	Individual Contributions	Income Tax Relief	Total Pension Saving	Employer Tax Relief
Baseline (2017/18 Thresholds in 2018/19 Earnings Terms)	£10,000 (2017/18)	£5,876 (2017/18 Upper Earnings Limit; current qualifying earnings band upper limit)	£45,000 (2017/18 Upper Earnings Limit; current qualifying earnings band)	11,000,000	£5,240m	£6,110m	£1,900m	£13,260m	£473m
Proposal (2018/19 Earnings Terms)	£10,000 (2018/19)	£6,032 (2018/10 National Insurance Lower Earnings Limit)	£46,350 (2018/19 National Insurance Upper Earnings Limit)	11,100,000	£5,260m	£6,130m	£1,910m	£13,300m	£474m
Difference				+100,000	+£19m	+£22m	+£7m	+£48m	+£2m

Source: DWP Modelling

Notes:

1. The baseline thresholds are the 2018/19 AE thresholds uprated in line with the OBR's private sector earnings growth forecasts.
2. Volumes of savers in the eligible target group are rounded to the nearest 100,000
3. The OBR's forecast for private sector earnings growth between 2016Q4 and 2017Q4 of 2.99 per cent is used.
4. Figures over £1,000m are rounded to the nearest £10 million and figures below are rounded to the nearest £1 million to reflect uncertainties associated with the modelling used. They therefore may not sum exactly.
5. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.

C - Impact of changing the earnings trigger in 2018/19

Table 4 shows the impact on employers, individuals, and government associated with the baseline and various options for the value of the earnings trigger in 2018/19.

With an earnings trigger of £10,000, around 11 million individuals are estimated to be in the eligible target population in 2018/19. Freezing the value of the automatic enrolment trigger at £10,000, combined with assumed wage increases, results in a real terms decrease in the value of the trigger. This brings in an additional 100,000 individuals into the eligible target group, with total pension savings increasing by an estimated £41 million.

Increasing the earnings trigger would increase the numbers earning below the trigger who are excluded from the eligible group for automatic enrolment. Increasing the value of the earnings trigger to align it with the personal tax allowance for 2018/19 (£11,850) would exclude around 400,000 individuals, and would reduce pension saving by £86 million.

Conversely, lowering the earnings trigger brings a greater number of lower earners into the eligible group. Setting the earnings trigger at the value of the National Insurance Primary Threshold for 2018/19 (£8,424) would add around 650,000 individuals to the eligible target group and increase pension saving by around £127 million in 2018/19.

Table 4 - Estimates of the impact of changing the earnings trigger on contributions from employers, individuals and government (in 2018/19)

Earnings Trigger	Rationale	Eligible Target Group	Employer Contributions	Individual Contributions	Income Tax Relief	Total Pension Saving	Employer Tax Relief
£10,000 (Baseline)	Current Trigger (17/18)	11,000,000	£5,240m	£6,110m	£1,900m	£13,260m	£473m
£6,032	NI Lower Earnings Limit (18/19)	+1,500,000	+£78m	+£92m	+£29m	+£198m	+£7m
£8,424	NI Primary Threshold (18/19)	+600,000	+£50m	+£59m	+£18m	+£127m	+£5m
£10,000	Freeze	+100,000	+£16m	+£19m	+£6m	+£41m	+£1m
£10,303	Uprate by estimate price inflation (CPI)	~0	>-£0.5m	>-£0.5m	>-£0.5m	>-£0.5m	>-£0.5m
£10,299	Uprate by estimate earnings inflation (equivalent to baseline)	0	0	0	0	0	0
£11,850	Income Tax Personal Allowance (18/19)	-400,000	-£34m	-£40m	-£12m	-£86m	-£3m

Source: DWP Modelling

Notes:
Source: DWP Modelling.

1. Estimates are expressed in 2018/19 earnings terms.
2. Scenarios after the baseline present the change in costs when compared to the baseline
3. Figures over £1,000m are rounded to the nearest £10 million and figures below are rounded to the nearest £1 million to reflect uncertainties associated with the modelling used. They therefore may not sum exactly.
4. The LEL and UEL are held constant at their 2017/18 levels uprated in line with private sector earnings growth, to isolate the impact of changes to the trigger.
5. The CPI measure of inflation was 3.00 per cent in October 2017.
6. The OBR's forecast for private sector earnings growth between 2016Q4 and 2017Q4 of 2.99 per cent was used.
7. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
8. 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.
9. Volumes of savers in the eligible target group are rounded to the nearest 100,000

D – Impact of changing the lower limit of the qualifying earnings band in 2018/19

Table 5 shows the impact on employers, individuals and government associated with the baseline thresholds and various options considered for the value of the 2018/19 qualifying earnings band lower limit.

Aligning the lower limit of the qualifying earnings band with the National Insurance Lower Earnings Limit of £6,032 in 2018/19 would result in an increase in pension saving in 2018/19 by around £6 million when compared to the baseline lower limit.

Increasing the lower limit of the qualifying earnings band to the 2018/19 National Insurance Contributions Primary Threshold (£8,424) would narrow the minimum band of earnings on which qualifying schemes would be required to make contributions on. This would reduce the level of pension saving in 2018/19 by around £662 million when compared to the baseline lower limit.

Table 5 - Estimates of the impact of changing the lower limit of the qualifying earnings band on contributions from employers, individuals and government (in 2018/19)

Qualifying earnings band LEL	Rationale	Employer Contributions	Individual Contributions	Income Tax Relief	Total of Pension Saving	Employer Tax Relief
£5,876	Current LEL (17/18)	£5,240m	£6,110m	£1,900m	£13,260m	£473m
£5,876	Freeze	+£19m	+£23m	+£7m	+£49m	+£2m
£6,032	NI LEL (18/19)	+£2m	+£3m	+£1m	+£6m	<£0.5m
£6,054	Uprate by estimate price inflation (CPI)	>-£0.5m	>-£0.5m	>-£0.5m	-£1m	>-£0.5m
£6,051	Uprate by estimate earnings inflation (equivalent to baseline)	0	0	0	0	0
£8,424	NI Primary Threshold (18/19)	-£261m	-£306m	-£95m	-£662m	-£24m

Source: DWP Modelling

Notes:
Source: DWP Modelling.
1. Estimates are expressed in 2018/19 earnings terms.
2. Scenarios after the baseline present the change in contributions when compared to the baseline
3. Figures over £1,000m are rounded to the nearest £10 million and figures below are rounded to the nearest £1 million to reflect uncertainties associated with the modelling used. They therefore may not sum exactly.
4. The earnings trigger and UEL are held constant at their 2017/18 levels uprated in line with private sector earnings growth, to isolate the impact of changes to the LEL
5. The CPI measure of inflation was 3.00 per cent in October 2017.
6. The OBR's forecast for private sector earnings growth between 2016Q4 and 2017Q4 of 2.99 per cent was used.
7. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
8. 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.

E – Impact of changing the upper limit of the qualifying earnings band in 2018/19

Table 6 shows the impact on employers, individuals and government associated with the baseline upper earnings limit and various options considered for its value in 2018/19.

Evidence from ASHE 2016 suggests that only 10 per cent of the eligible target group in 2016/17 earned over the upper earnings limit, suggesting that alterations to this threshold will have a small impact on total pension saving.

Increasing the upper limit of the qualifying earnings band extends the minimum band of earnings on which pension contributions must be made in a qualifying scheme. Aligning it with 2018/19 level of National Insurance Contributions Upper Earnings Limit of £46,350 would result in an increase in the level of pension saving in 2018/19 by less than £1 million when compared to the baseline upper limit.

Freezing the upper limit of the qualifying earnings band at £45,000 in 2018/19 would result in a real terms decrease in the upper limit, narrowing the qualifying band of earnings, and reducing the level of pension saving in 2018/19 by around £74 million.

Table 6 - Estimates of the impact of changing the upper limit of the qualifying earnings band on contributions from employers, individuals and government (in 2018/19)

Qualifying earnings band UEL	Rationale	Employer Contributions	Individual Contributions	Income Tax Relief	Total Pension Saving	Employer Tax Relief
£45,000	Current UEL (17/18)	£5,240m	£6,110m	£1,900m	£13,260m	£473m
£45,000	Freeze	-£30m	-£34m	-£11m	-£74m	-£3m
£46,362	Uprate by estimate price inflation (CPI)	<£0.5m	<£0.5m	<£0.5m	+£1m	<£0.5m
£46,343	Uprate by estimate earnings inflation (equivalent to baseline)	0	0	0	0	0
£46,350	NI Upper Earnings Limit (18/19)	<£0.5m	<£0.5m	<£0.5m	<£0.5m	<£0.5m

Source: DWP Modelling

Notes:
Source: DWP Modelling.
1. Estimates are expressed in 2018/19 earnings terms.
2. Scenarios after the baseline present the change in costs when compared to the baseline
3. Figures over £1,000m are rounded to the nearest £10 million and figures below are rounded to the nearest £1 million to reflect uncertainties associated with the modelling used. They therefore may not sum exactly.
4. The earnings trigger and LEL are held constant at their 2017/18 levels uprated in line with private sector earnings growth, to isolate the impact of changes to the UEL.
5. The CPI measure of inflation was 3.00 per cent in October 2016.
6. The OBR's forecast for private sector earnings growth between 2016Q4 and 2017Q4 of 2.99 per cent was used.
7. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
8. 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.

Annex A – Equalities impacts on affected groups

Under the baseline, we estimate that there will be around 11 million private sector employees in the eligible target group in 2018/19, of which just under two in five (38 per cent) are women.

Table 7 presents the demographic breakdown of private sector pension savers under the baseline thresholds, for those newly eligible under the proposed thresholds, and the overall demographic picture under the proposed thresholds. Under the proposed thresholds, the earnings trigger is frozen at £10,000, which results in a real terms decrease in the trigger, bringing an additional 100,000 employees into the eligible target group, of which 72,000 (72 per cent) are women. As women are more likely to work part-time, or earn less than men, it is unsurprising that there will be a higher proportion of them included in automatic enrolment by a downward revision and is a positive measure in the continuing improvement in pension outcomes for women which have typically lagged behind those of men.

Statistics published by the Office of National Statistics show that women are more likely to work part-time[16] and earn less than men[17], so they will be disproportionately represented in the group excluded from automatic enrolment by an upward revision of the earnings trigger and conversely in any group brought into pension saving by a decrease in the trigger.

By definition, low earners are disproportionately affected by changes to the earnings 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. From ASHE 2016, we know that around 40 per cent (1,000,000) of employees aged 22 to state pension age and earning between the LEL and trigger are saving into a workplace pension. Employers are required to provide information to individuals about their opt-in rights. Feedback from stakeholders also suggests that employers

[16] See Labour Market Statistics published by ONS: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2017

[17] See analysis of the pay differences between men and women published in the Annual Survey of Hours and Earnings 2016 provisional and revised results: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisionaland2016revisedresults

are contractually enrolling employees who are not eligible as it helps manage their business administration processes.

Individuals who are earning above the Trigger and below the personal tax allowance would not benefit from any tax relief on their contributions if enrolled into a pension scheme that uses a Net Pay Arrangement. Keeping the trigger frozen at £10,000 while the personal tax allowance increases from £11,500 to £11,850 increases the number of individuals who would not benefit from tax relief on their contributions if enrolled into a pension scheme that uses a Net Pay Arrangement by 50,000 to 340,000.

Savers in NPA schemes have their pension contributions taken before tax, no further payment is "relieved" into their pension [pot]. In RAS schemes, savers earning below the personal allowance are automatically credited with an additional payment (equivalent to basic rate tax relief) directly into their pension pot as all pension contributions in RAS schemes are made from post-tax pay. Aligning the trigger with the Personal Income Tax Allowance would address this inconsistency to some extent but would also remove a significant number of savers from AE.

The government recognises the different impacts 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 is currently increasing the data provided directly to HMRC by employers and individuals as part of its ambition for HMRC to become one of the most digitally advanced tax administrations in the world. The government is also committed to ensuring we can deliver a modern digital tax system to make it more effective, more efficient and easier for customers to comply and reduce the amount of tax lost through avoidable error. This work may present opportunities to look afresh at the two systems of paying pension tax relief.] Alongside further work on the automatic enrolment changes outlined in the 2017 Review, the government will examine the processes for payment of pensions tax relief for individuals to explore the current difference in treatment and ensure that we can make the most of any new opportunities that emerge, balancing simplicity, fairness, and practicality; whilst engaging with stakeholders to seek their views.

The Pensions Regulator 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 enables employers to see what the implications of net pay schemes would be for any of their employees who do not pay income tax.

More information can be found on their website at:

http://www.thepensionsregulator.gov.uk/what-to-consider-when-choosing-a-scheme.aspx

Evidence from ASHE suggests that under the baseline thresholds, the median age of a member of the eligible target group is 38. For those newly eligible under the proposed package (e.g. those earning between the new and old earnings trigger), the median age is higher at 41 years old. However, since this group is small relative to the total numbers of private sector pension savers, there is no change in the average age of the eligible target group under the proposed thresholds.

The LFS is used to estimate the impacts of the proposed package on the eligible group by disability status and ethnicity. Those newly eligible are more likely to be from a BME group or to have some form of disability than those currently eligible under the baseline thresholds. However, again since the newly eligible group are small relative to the overall population of pension savers, their addition has little effect on the overall demographic split of that population.

The changes under consideration for the 2018/19 review are not expected to particularly affect individuals according to their sexual orientation, religion or belief.

Table 7 - Demographic breakdown of savers under baseline and proposed thresholds

	Female	Disability	BME	Median Age
Eligible under baseline thresholds	38%	13%	11%	38
Newly eligible under proposed thresholds	72%	22%	23%	41
Overall eligible under proposed thresholds	38%	13%	11%	38

Source: ASHE 2016/17 and LFS 2016/17

Notes

1. Age and gender estimates are derived from the Annual Survey of Hours and Earnings.
2. Percentage figures are rounded to their nearest percentage point.
3. BME and Disability estimates are derived from the Labour Force Survey; this survey does not have data on pension contributions, so it cannot identify whether one has a pension or not. Therefore, demographic estimates for disability and ethnicity are for those eligible to be automatically enrolled, rather than those eligible and not saving (e.g. in the target group).
4. Gender and Age estimates are derived from ASHE 2016; as this does have data on pension contributions, the splits for these variables are in terms of proportions in the eligible target group.

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