Department for Work & Pensions

Review of the Automatic Enrolment Earnings Trigger and Qualifying Earnings Band for 2019/20: Supporting Analysis

December 2018

Contents

Background

Automatic enrolment (AE) 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** 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 level 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 employees. The programme began its roll-out in October 2012 when the largest employers were required to meet their automatic enrolment duties and was completed in March 2018 when the last groups of small and micro employers took on their AE duties. This period was known as "staging". Since October 2017, all new employers have also been required to automatically enrol eligible employees. By the end of November 2018, over 9.9 million people have been automatically enrolled and more than 1.4 million employers have met their duties.[1]

The Pensions Act 2011 aligned the earnings trigger for automatic enrolment with the Personal Income Tax Allowance. Since then the government has periodically consulted on the AE thresholds as part of the statutory annual review. The most recent consultation was for the 2015/16. Although a formal consultation did not take place last year, the 2018/19 review drew upon evidence gathered as part of the wider *Automatic Enrolment Review 2017: Maintaining the Momentum,* which specifically sought views on the earnings trigger and thresholds. [2] All previous years reports are available here.[3]

[1] Latest "Automatic enrolment declaration of compliance" report can be found here www.thepensionsregulator.gov.uk/doc-library/research-analysis
[2] www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum
[3] www.gov.uk/government/collections/automatic-enrolment-earnings-trigger-and-qualifying-earnings-band

Annual Review

Within the review of the automatic enrolment earnings trigger and qualifying earnings band for 2019/20 the Secretary of State has some flexibility in the level to which the amounts for the earnings trigger and qualifying earnings band are set.[4] 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, consistent 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.

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 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

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[4] 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

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 2019/20.

Results of This Year’s Review

Earnings Trigger

The earnings trigger one of the three key factors which ultimately governs who gets enrolled into a workplace pension scheme through automatic enrolment. 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 greater numbers of individuals making a conscious decision to opt-out.

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 2019/20. This represents a real terms decrease in the value of the trigger when combined with assumed wage growth and will bring in an additional 40,000 individuals into the target population. 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 a level of stability at this point with the second phased increase in contributions due to take place at the start of the 2019/20 tax year[5] and continues to provide consistency of messaging for both employers and jobholders against this wider change.

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. Research published by the IFS in 2016[6] showed that automatic enrolment had 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 also continues to suggest that many employers are contractually enrolling their non-eligible and entitled jobholders (e.g. those earning at a level below that set by the earnings trigger) anyway.

[5] Minimum contributions rose to 5 per cent in April 2018 and will rise to 8 per cent in April 2019

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

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 – 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 sets the minimum amount that people have to start saving from and minimum employer 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 at its 2019/20 value of **£6,136** by setting this as the value of the lower limit of the qualifying earnings band for 2019/20.

The proposal in the December 2017 "*Automatic Enrolment Review"* to remove the lower earnings limit remains the Government's ambition for the future direction of the policy. We remain committed to implementing the balanced package of changes proposed in the 2017 Review in the mid-2020's, subject to discussions with stakeholders; finding ways to make the changes affordable, and learning from the statutory contribution increases this year and from April 2019. 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.[7]

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 2019/20 value of **£50,000** is the factor that should determine the upper limit of the qualifying earnings band.

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

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 2019/20

The current (2018/19) and proposed (2019/20) 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 (2018/19)	£10,000	£6,032	£46,350
Proposed (2019/20)	£10,000	£6,136	£50,000

Methodology

This section describes the process used to generate the estimated impact of proposed changes to the automatic enrolment thresholds. Impacts are calculated by comparing a modelled baseline scenario against one where changes to the thresholds are made.

The **baseline thresholds** for 2019/20 are the 2018/19 thresholds uprated in line with forecast earnings growth. This effectively holds the thresholds constant in real earnings terms. The OBR's forecast for earnings growth between 2017Q4 and 2018Q4 of 2.04 per cent was used.

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

1. Freezing the thresholds at their 2018/19 level;
2. Setting the thresholds in line with relevant 2019/20 National Insurance or tax thresholds;
3. Uprating the 2018/19 thresholds by a relevant index (e.g. earnings, CPI, RPI, etc).

In the model**, total individual and employer pension contributions** in each scenario are estimated for the 2019/20 tax year using:

- Private sector employees' **average earnings** estimated using the Annual Survey of Hours and Earnings (ASHE) data.[8] The survey data from 2012 is used to represent the pension landscape prior to the implementation of automatic enrolment.
- Estimates of the proportions of private sector employees for and from whom **additional contributions** are due in 2019/20, based on DWP modelling using ASHE data.
- Existing **volumes of the number of employees** working for employers who have undergone the automatic enrolment process. These volumes are informed by HMRC Pay-As-You-Earn data and consistent with The Pension Regulator's estimates.
- Estimates of the bands of earnings on which individuals are making pension contributions, based on 2017 ASHE Data. We account for evidence which suggests that some employers contribute towards a band of earnings between £0 and the UEL, rather than the LEL and the UEL.
- Contribution rates for employers and employees, where the minimum for a qualifying pension scheme in 2019/20 is 8 per cent total contributions

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[8] For more details on ASHE methodology, see the ONS 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.[9]

- **Employer tax relief**. Because 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, and
    - the appropriate tax rate, either employer NICs or corporation tax.[10]

All 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. Caution should be exercised in interpreting the figures presented.

The methodology outlined above looks only at those eligible to be automatically enrolled. As highlighted above, IFS analysis shows that automatic enrolment has increased pension participation amongst those outside of the eligibility rules. This group are not included within this modelling. If their pension arrangements are impacted by changes to the qualifying earnings band for automatic enrolment, then the impact of the reforms would be larger than estimated here.

Finally, estimates of the **equalities impacts** of different thresholds are produced using 2017 ASHE data and the 2017/18[11] Labour Force Survey (LFS). Analysis is presented for two groups: the population eligible for automatic enrolment ("the eligible population")[12] and the population who are eligible but not currently saving in

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[9] As in last year's report, this calculation assumes that all savers are in a Net Pay Arrangement (NPA), rather than a Relief at Source (RAS) system. This assumption has a minimal impact on the aggregated estimates present, although the distinction is important for a small group of individuals.

[10] EPP 2017 Survey.
https://www.gov.uk/government/publications/employers-pension-provision-survey-2017

[11] The data sets: April – June 2017, July – September 2017, October – December 2017 and January – March 2018 were combined to represent 2017/18.

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

a qualifying workplace pension ("the target population")[13]. 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**[14]. The breakdowns of these demographics are presented in Annex A.

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

[13] 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.

[14] 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 Increasing Statutory Minimum Contributions

In April 2019 the minimum contributions for a qualifying pension scheme will rise, known as ‘phasing’. The minimum total contribution will increase from 5 per cent to 8 per cent of qualifying earnings, and the minimum employer contribution will increase from 2 per cent to 3 per cent.

The increase in minimum contribution rates drives a significant increase in the estimate of contribution costs relative to the previous year. Table 2 compares the pension contributions under the baseline thresholds in 2018/19 and 2019/20, showing a £5.5 billion increase in pension saving. This comparison is also made in Chart 1.

In 2017/18, employees eligible for automatic enrolment saved a total of £90.3 billion into their pension. This represented an increase of £4.3 billion on 2016/17.[15] By 2019/20, we estimate here that there will be an extra £18.4 billion of workplace pension saving per year *as a result of automatic enrolment*, before the impact of threshold changes is taken into account.

The Department does not currently model the future impact of phasing on cessation, when an eligible individual stops saving into a pension scheme, and there is considerable uncertainty around this effect. If phasing leads to an increase in cessation, this would lead to lower baseline contributions than estimated here. The Department closely monitors cessation using HMRC Real-Time-Information (RTI) earnings data and will use this evidence in future to monitor cessation rates following planned contribution increases.[16]

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[15] *Workplace Pensions Participation and Saving Trends 2007 to 2017* www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2007-to-2017

[16] See upcoming DWP ‘*Automatic Enrolment Evaluation Report 2018*’ for existing RTI evidence on cessation rates.

Table 2 - Increase in total pension contributions from employers, individuals and initial impacts on income tax relief. 2018/19 and 2019/20 (£ million)

	Employer Contributions	Individual Contributions	Income Tax Relief	Total Pension Saving	Employer Tax Relief
Baseline Thresholds - Level of Pension Saving in 2018/19	£5,090m	£6,000m	£1,810m	**£12,890m**	£524m
Baseline Thresholds - Level of Pension Saving in 2019/20	£6,950m	£8,800m	£2,660m	**£18,410m**	£717m
Difference	+£1,860m	+£2,800m	+£848m	**+£5,510m**	+£192m

Source: DWP Modelling

Notes:

1. The baseline thresholds in 2018/19 are the 2018/19 automatic enrolment thresholds. To estimate the baseline level of pension saving in 2019/20, these thresholds are uprated in line with 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.

B - Impact of Proposed Thresholds for 2019/20

The proposed thresholds for 2019/20 are:

(i) retaining the 2018/19 automatic enrolment earnings trigger (£10,000),
(ii) aligning the LEL with the 2019/20 National Insurance Lower Earnings Limit (£6,136), and
(iii) aligning the UEL with the 2019/20 National Insurance Upper Earnings Limit (£50,000).

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

Under the proposed thresholds, the overall level of pension saving amongst the eligible target population is estimated to be £18,620 million in 2019/20, £209 million higher than it would have been if the thresholds remained at 2018/19 levels in equivalent earnings terms and the minimum contribution had increased to 8 per cent. This increase consists of an additional £79 million in employer contributions, £100 million in employee contributions, and £30 million in income tax relief on the individual's contribution.

Table 3 – Estimated direct impacts of changes to the earnings trigger and upper and lower limits of the qualifying earnings band on contributions from employers, individuals and tax-relief (in 2019/20)

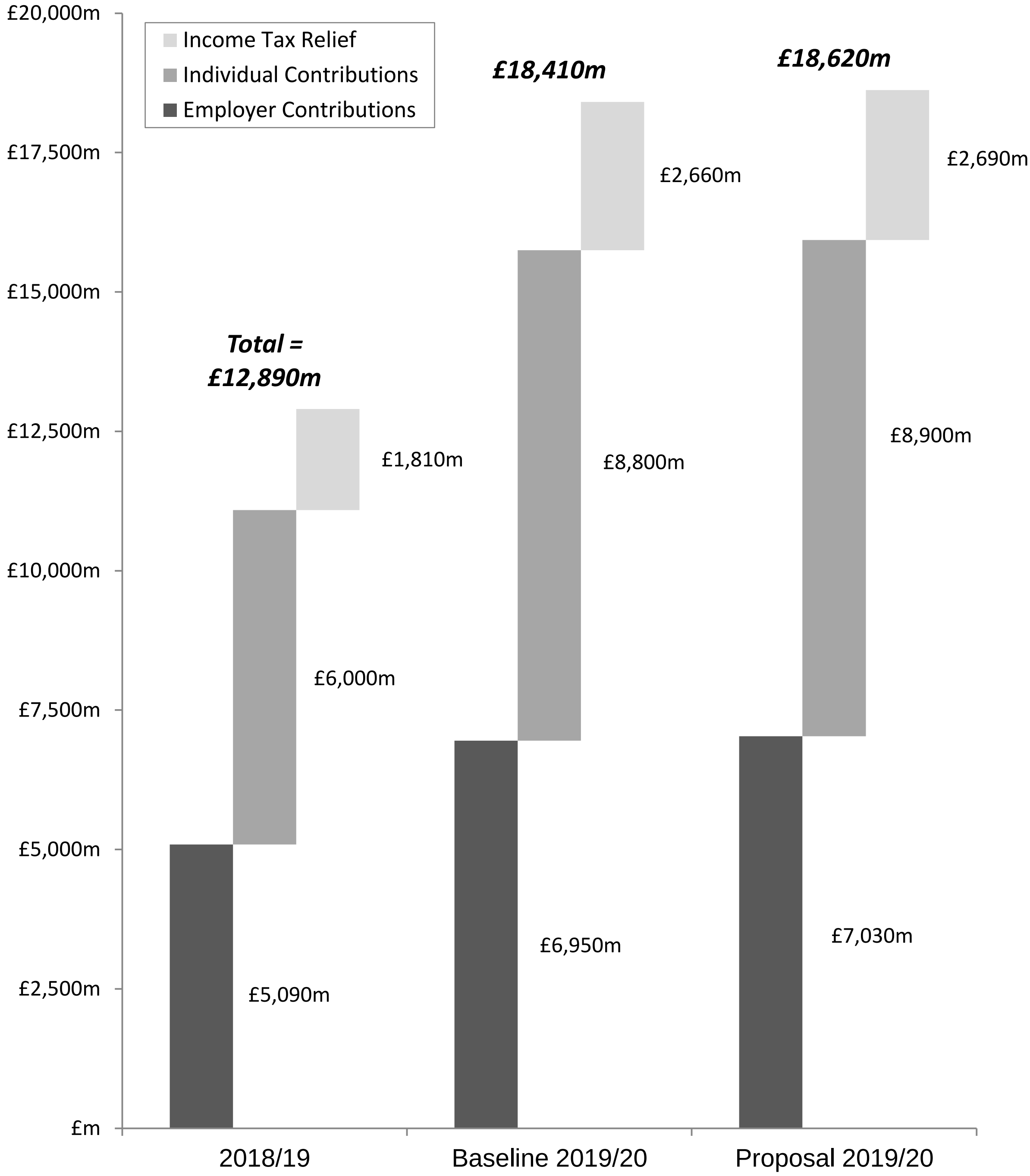
	Earnings Trigger	**Qualifying Earnings Band Lower Limit**	**Qualifying Earnings Band Upper Limit**	**Eligible Target Group**	**Employer Contributions**	**Individual Contributions**	**Income Tax Relief**	**Total Pension Saving**	**Employer Tax Relief**
Baseline (2018/19 thresholds in 2019/20 earnings terms)	£10,204	£6,155	£47,294	11,080,000	£6,950m	£8,800m	£2,660m	**£18,410m**	£717m
Proposal	£10,000	£6,136	£50,000	11,130,00	£7,030m	£8,900m	£2,690m	**£18,620m**	£725m
Difference				+40,000	+£79m	+£100m	+£30m	**+£209m**	+£8m

Source: DWP Modelling

Notes:

1. The baseline thresholds are the 2019/20 AE thresholds uprated in line with the OBR's earnings growth forecasts.
2. Volumes of savers in the eligible target group are rounded to the nearest 10,000
3. The OBR's forecast for earnings growth between 2017Q4 and 2018Q4 of 2.04 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.

Chart 1 - Breakdown of contributions from employers, individuals, and income tax relief between 2018/19 and 2019/20 (£ million)



Notes:

Source: DWP Modelling

1. The baseline thresholds for 2019/20 are the 2018/19 automatic enrolment thresholds adjusted for earnings growth.
2. Figures over £1,000m are rounded to the nearest £10 million.

C - Impact of Changing the Earnings Trigger in 2019/20

Table 4 shows the impact on employers, individuals, and government associated with the various options for the value of the earnings trigger in 2019/20. 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 who are in the automatic enrolment target population by approximately 40,000 people. The eligible population increases because some people's earnings will increase to take them above the £10,000 trigger in 2019/20. This will increase total pension saving by an estimated £22 million.

Lowering the earnings trigger would open up eligibility for AE to more lower earners. For example, aligning the earnings trigger with the NI Lower Earnings Limit would increase the eligible population by nearly 1.4 million people, increasing total pension saving by almost £0.5bn.

Raising the earnings trigger would exclude more people from the eligible population for automatic enrolment. For example, aligning the earnings trigger with the Personal Income Tax Threshold would remove eligibility to automatic enrolment for an estimated 600,000 people, reducing total pension saving by around £360m.

As part of this Review the Government has also considered the impact of the increase in the personal allowance to £12,500 and the interaction with pension's tax relief administration. As a result of maintaining the earnings trigger at £10,000, we estimate that an additional 30,000 people will be eligible to be automatically enrolled into a pension for the first time in 2019/20, whilst earning below the personal tax allowance of £12,500. In total there will be 380,000 people who will be eligible to be automatically enrolled into a pension in 2019/20 who earn less than the personal tax allowance.

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. Last year the 2017 Review of Automatic Enrolment concluded that 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's ambition for HMRC to become one of the most digitally advanced tax administrations in the world may present opportunities to look afresh at the two systems of paying pension tax relief, to explore the current difference in treatment, and ensure that we can make the most of any new opportunities, balancing simplicity, fairness, and practicality.

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 the implications for employees who do not pay income tax. More information can be found here: http://www.thepensionsregulator.gov.uk/what-to-consider-when-choosing-a-scheme.aspx

Table 4 - Estimates of the direct impact of changing the earnings trigger on contributions from employers, individuals and tax relief (in 2019/20)

Earnings Trigger	Rationale	Eligible Target Group	Employer Contributions	Individual Contributions	Income Tax Relief	Total Pension Saving	Employer Tax Relief
£10,204 (Baseline)	Current trigger (2018/19) uprated by earnings inflation	11,080,000	£6,950m	£8,800m	£2,660m	**£18,410m**	£717m
£6,136	NI lower earnings limit (19/20)	+ 1,370,000	+£183m	+£233m	+£70m	**+£486m**	+£19m
£8,632	NI primary threshold (19/20)	+ 480,000	+£81m	+£103m	+£31m	**+£215m**	+£8m
£10,000	Freeze 2018/19 trigger	+ 40,000	+£8m	+£11m	+£3m	**+£22m**	+£1m
£10,204	Uprate by earnings inflation (baseline)	0	0	0	0	**0**	0
£10,264	Uprate by estimated price inflation (CPI)	- 20,000	-£4m	-£5m	-£1m	**-£10m**	-<£0.5m
£12,500	Income tax personal allowance (19/20)	- 600,000	-£135m	-£172m	-£52m	**-£360m**	-£14m

Source: DWP Modelling

Notes:

1. Scenarios after the baseline present the change in costs when compared to the baseline
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. The LEL and UEL are held constant at their 2018/19 levels uprated in line with earnings growth, to isolate the impact of changes to the trigger.
4. The CPI measure of inflation was 2.64 per cent in October 2018. The annual £10,000 trigger is uprated by this figure and rounded to the nearest £.
5. The OBR's forecast for earnings growth between 2017Q4 and 2018Q4 of 2.04 per cent was used.
6. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
7. 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.
8. Volumes of savers in the eligible target group are rounded to the nearest 10,000

D – Impact of Changing the Lower Limit of the Qualifying Earnings Band in 2019/20

Table 5 shows the impact on employers, individuals and government associated with the baseline thresholds and various options considered for the value of the 2019/20 qualifying earnings band lower limit. As before, these are the impacts of isolated LEL changes. Unlike the earnings trigger, the LEL does not impact the number of people who are eligible for AE target group and as such, population effects are not included.

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 £6,136 represents a slight decrease against the baseline threshold, so it results in an increase in pension saving by around £7 million when compared to the baseline scenario.

Increasing the LEL would reduce total pension saving. For example, setting the LEL according to the 2019/20 NI Primary Threshold of £8,632 would reduce total pension saving by almost £1bn when compared to the baseline scenario.

Table 5 - Estimates of the direct impact of changing the lower limit of the qualifying earnings band on contributions from employers, individuals and tax relief (in 2019/20)

Qualifying earnings band LEL	Rationale	Employer Contributions	Individual Contributions	Income Tax Relief	Total of Pension Saving	Employer Tax Relief
£6,155 (Baseline)	Current LEL (18/19) uprated by earnings inflation	£6,950m	£8,800m	£2,660m	**£18,410m**	£717m
£6,032	Freeze	+£18m	+£23m	+£7m	**+£48m**	+£2m
£6,136	NI Lower Earnings Limit (19/20)	+£3m	+£4m	+£1m	**+£7m**	+<£0.5m
£6,136	Uprate by estimated price inflation (CPI)	+£3m	+£4m	+£1m	**+£7m**	+<£0.5m
£6,155	Uprate by earnings inflation (baseline)	0	0	0	**0**	0
£8,632	NI Primary Threshold (19/20)	-£365m	-£464m	-£140m	**-£970m**	-£38m

Source: DWP Modelling

Notes:

1. Scenarios after the baseline present the change in contributions when compared to the baseline
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. The earnings trigger and UEL are held constant at their 2018/19 levels uprated in line with earnings growth, to isolate the impact of changes to the LEL.
4. The CPI measure of inflation was 2.64 per cent in October 2018. To calculate the NI Lower Earnings Limit for 2019/20, HMT rounded the uprated 2018/19 weekly threshold down to the nearest £1. The 'Uprate by price inflation' effect is calculated by uprating the 2018/19 annual rate by CPI and rounding to the nearest £1.
5. The OBR's forecast for earnings growth between 2017Q4 and 2018Q4 of 2.04 per cent was used.
6. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
7. 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 2019/20

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 2019/20, 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, the UEL does not affect who is eligible for AE so population impacts are not included.

Continuing to align the Upper Earnings Limit for National Insurance contributions would mean increasing it by £3,650 between 2018/19 and 2019/20. This would increase total pension saving by approximately £179m. Of this, approximately £68m would be paid by employers and £85m would be paid by employees, with the remainder made up by government in the form of income tax relief.

Freezing the UEL would represent a real terms decrease in the limit, thereby effectively reducing total pension spending by £71m against the baseline scenario where the UEL is uprated according to earnings. Finally, uprating the UEL according to inflation would mean increasing it very slightly in real terms, thereby marginally increasing total pension saving by approximately £17m.

Table 6 - Estimates of the direct impact of changing the upper limit of the qualifying earnings band on contributions from employers, individuals and tax relief (in 2019/20)

Qualifying earnings band UEL	Rationale	Employer Contributions	Individual Contributions	Income Tax Relief	Total Pension Saving	Employer Tax Relief
£47,294 (Baseline)	Current UEL (18/19) uprated by earnings inflation	£6,950m	£8,800m	£2,660m	**£18,410m**	£720m
£46,350	Freeze	-£27m	-£34m	-£10m	**-£71m**	-£3m
£47,294	Uprate by estimate earnings inflation (baseline)	0	0	0	**0**	0
£47,533	Uprate by estimate price inflation (CPI)	+£7m	+£8m	+£2m	**+£17m**	+£1m
£50,000	NI Upper Earnings Limit (19/20)	+£68m	+£85m	+£26m	**+£179m**	+£7m

Source: DWP Modelling

Notes:

1. Scenarios after the baseline present the change in costs when compared to the baseline
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. The earnings trigger and LEL are held constant at their 2018/19 levels uprated in line with earnings growth, to isolate the impact of changes to the UEL.
4. The CPI measure of inflation was 2.64 per cent in October 2018.
5. The OBR's forecast for private sector earnings growth between 2017Q4 and 2018Q4 of 2.04 per cent was used.
6. Total pension saving is the sum of employer contributions, individual contributions, and income tax relief.
7. 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

Introduction

This section describes the estimated impact of the proposed changes to the automatic enrolment earnings trigger on the demographics of private sector pension savers. Freezing the earnings trigger at £10,000 in 2019/20 whilst average earnings increase leads to a lower trigger in real-terms. The qualifying earnings bands do not impact eligibility and are therefore not included in this analysis.

The demographic breakdowns for the following characteristics are presented:

a) Women
b) Disabled people
c) Those from Black and Minority Ethnic (BME) backgrounds.
d) Age

For each of the groups analysed three figures are presented:

a) The demographic breakdown of private sector pension savers under the baseline, earnings-adjusted 2018/19 thresholds.
b) The demographic breakdown of private sector pension savers who are **newly eligible** under the proposed threshold changes in 2019/20.
c) The demographic breakdown of all private sector pension savers under the newly proposed thresholds for 2019/20.

These figures can be found in Table 7, along with the estimated size of each of these groups.

Women

Table 7 shows that approximately 37 per cent of the eligible group under the baseline are women. Women are under-represented in this group because they earn less than men.[17] They are also less likely to work full time and more likely to work part-time[18].

Conversely, women make up a much larger percentage of people earning below the equivalent of £10,000. They are therefore over-represented in the newly eligible group. Three quarters of those who will become eligible for automatic enrolment will be women, as their incomes grow above £10,000 in 2019-20.

Because women are over-represented in the newly eligible group, there is a marginal change in the demographics of the AE eligible population as a result of the threshold changes. An estimated 38 per cent of the eligible population are women.

Age

The median age of the eligible group under the baseline is 38, as it was in last year's report. The newly eligible group appear to be a little older on average than the previously eligible, with an average age of 41. The median age of the eligible group under the proposed changes remains unchanged at 38. This is because the newly eligible group is much smaller than the existing population.

Disabled People

Disabled people make up 13 per cent of the eligible group under the baseline scenario. They are better represented in the newly eligible group – 23 per cent of this group are disabled, according to estimates informed by the LFS. 13 per cent of the eligible group under the proposed thresholds are disabled.

Black and Minority Ethnic

Those from BME groups make up 11 per cent of the eligible group under the baseline and the proposed thresholds. They are slightly better represented in the newly eligible group, at 13 per cent.

[17] See analysis of the pay differences between men and women published by the Office of National Statistics: www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2018

[18] See ONS statistics: www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/october2018#toc

Other Groups

As in previous years, the changes under consideration for the 2019/20 review are not expected to particularly affect individuals according to their marital status, sexual orientation, gender identity, religion or belief.

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

	Estimated Size of Group	Female	Disability	BME	Median Age
Eligible under baseline thresholds	11,080,000	37%	13%	11%	38
Newly eligible under proposed thresholds	40,000	75%	23%	13%	41
Overall eligible under proposed thresholds	11,130,00	38%	13%	11%	38

Source: ASHE 2017 and LFS 2017/18

Notes

1. Percentage figures are rounded to their nearest percentage point.
2. BME and Disability estimates are derived from the Labour Force Survey 2017/18. 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).
3. Gender and Age estimates are derived from ASHE 2017; 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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