



Department  
for Work &  
Pensions

# Review of the automatic enrolment earnings trigger and qualifying earnings band for 2016/17: supporting analysis

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# Background

Automatic enrolment obliges employers to enrol all workers who satisfy age and earnings criteria into a workplace pension arrangement and pay at least a minimum level of contributions.

The automatic enrolment earnings trigger determines who is eligible to be automatically enrolled by their employer into a workplace pension. The qualifying earnings band sets minimum contribution levels for money purchase schemes. The minimum of the band is also relevant to defining who can opt in if they earn under the earnings trigger. These thresholds must be reviewed each year.

Automatic enrolment began in October 2012 with employers “staged in” over six years starting with the largest employers. All large and medium sized employers (all those with over 50 workers) have now been staged and staging is well underway for small and micro sized employers. To date, over 5.6 million workers have been automatically enrolled by around 73,000 employers.<sup>1</sup>

The Government consulted on the thresholds for the first two years (2012/13 and 2013/14) of automatic enrolment to test the approach to the annual review, the relevant revision factors for each threshold and the balance between targeting, administrative simplicity and employer costs. These early consultations were invaluable. They demonstrated where respondents felt that balance lay and the issues for employers, individuals and the pensions industry.

After considering all the relevant factors the Government decided in the third year (2014/15) of automatic enrolment that it was right to continue to align with the personal tax allowance of £10,000 and so a consultation was considered unnecessary.

However, after four years of automatic enrolment (2015/16), given the number of employers who had gone through the staging process, the Government sought to gain some valuable insight on the experiences of live running so thought the timing was right for a further consultation. It also wanted to test whether maintaining the alignment between the earnings trigger and the personal tax allowance remained right in the light of proposed increases to the personal tax allowance and suppressed earnings growth. Following the consultation, it was decided to keep the earnings trigger frozen at £10,000 in 2015/16.

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<sup>1</sup> Automatic Enrolment Declaration of Compliance Report, July 2012 – end November 2015, The Pensions Regulator. See: <http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf>

# Annual review

The automatic enrolment earnings trigger determines who gets automatically enrolled. The qualifying earnings band sets minimum contribution levels for money purchase schemes. The minimum of the band is also relevant to defining who can opt in if they earn under the earnings trigger. These thresholds are reviewed each year, and revised if appropriate, taking into account: the prevailing thresholds for National Insurance contributions; PAYE personal tax allowance; basic state pension, inflation and any other factors that the Secretary of State considers relevant.

Although the Secretary of State has some flexibility in the way these thresholds are set, section 14 of the Pensions Act 2008 constrains this flexibility<sup>2</sup>. The reviews must be discrete annual considerations. The Government can set out policy objectives and the principles that should inform the setting of the thresholds. It cannot pre-determine thresholds or the approach for future years.

The first two annual reviews established three principles to be used when reviewing the automatic enrolment thresholds. These principles were endorsed by stakeholders and we believe that these principles are still relevant:

- (i) **Will the right people be brought in to pension saving?** In particular, at what level will the earnings trigger bring in as many people as possible who will benefit from saving? At what level does the trigger need to be set to avoid the automatic enrolment of those who are unlikely to benefit from saving? And what are the equality implications of the different options?
- (ii) **What is the appropriate minimum level of saving for people who are automatically enrolled?** Everyone who is automatically enrolled should pay contributions on a meaningful portion of their income. To ensure this, we need to maintain an appropriate gap or de minimis 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 simplicity. Alignment as far as possible with recognisable tax and NICs thresholds simplifies system builds, provides compatibility with existing payroll systems and makes automatic enrolment as easy as possible to administer and explain.

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<sup>2</sup> Annex A of Automatic enrolment earnings thresholds review and revision 2015/16, December 2014, DWP, sets out the review factors as described in the Pensions Act 2008. See: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/388546/automatic-enrolment-earnings-thresholds-2015-2016-response.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388546/automatic-enrolment-earnings-thresholds-2015-2016-response.pdf)

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 2016/17.

## Automatic enrolment earnings trigger

Automatic enrolment into a workplace pension scheme is a policy designed to target low to moderate earners who are either not saving or not saving at least a minimum for their retirement.

The earnings trigger determines who gets automatically enrolled. If the trigger is too high then people whom the policy is designed to target may miss out. Set it too low and people for whom it makes little sense to save for retirement because they probably cannot afford to save are therefore more likely to make the conscious decision to opt out. This is a balance and in striking that balance we need to assess the equality implications and consider the impact on the low paid of whom the majority are women.

The responses to last year's consultation provided a broad range of comments and suggestions on how the aims of automatic enrolment can best be achieved. Whilst there was no clear consensus on how to do this there were a number of key themes which emerged including the need to reduce complexity as far as possible whilst ensuring the best overall outcomes for savers.

A number of additional factors for consideration were also raised last year including affordability of contributions for both individuals and employers. The Government remains sensitive to this issue, indeed maintaining the affordability of automatic enrolment is a key function of the earnings trigger and earnings band. However, the Government's considered view remains that the overriding factor should be ensuring that people have sufficient retirement income savings.

In light of this aim and the responses to last year's review, the Government decided that the earnings trigger for 2015/16 should be frozen at £10,000. It was felt that this struck the right balance between administrative simplicity and ensuring that the people brought into pensions saving are likely to benefit. The Government recognises that low earners are more likely to be disproportionately represented in the group excluded from automatic enrolment by the earnings trigger. Furthermore, this group includes a disproportionate amount of women. That was a factor in the decision to freeze the trigger in 2015/16.

The Government acknowledged the disadvantage of this option is that it would break the link between the earnings trigger and tax relief, and that workers earning below £10,600 whose employers use Net Pay Arrangements wouldn't benefit from tax relief.

Setting the earnings trigger below £10,000 would increase the number of low paid workers saving into a workplace pension but would not meet the overall aims of the review e.g. ensuring that the right people are brought into savings and balancing the costs and benefits between individuals and employers. The Government's view

remains that voluntary opt-in provides the best protection for those earning under £10,000 who wish to save.

The Secretary of State has re-considered all the review factors against the latest analytical evidence and policy objectives and decided that the current threshold of £10,000 remains the right level and therefore will not change for 2016/17.

Retaining the figure of £10,000 in 2016/17 will help to ensure that low earners that are likely to benefit from saving for their retirement are appropriately included in automatic enrolment. In reaching this view, the Government has considered in particular the fact that around 180,000 workers earn between £10-11,000 and the fact that where these workers are automatically enrolled into a workplace pension that uses a Net Pay tax relief arrangement, these workers won't benefit from tax relief on their contributions. Small and micro employers should ask their provider about the tax implications before making a decision on the scheme they choose. The Pensions Regulator has published information online for employers on how to obtain tax relief and the implications for staff depending on the method used.

However, the Government is committed to keeping the matter under close review particularly in the light of the outcome of HM Treasury's recent consultation on pensions tax relief. Automatic enrolment is now entering a crucial stage in the roll out of this major reform and it is not considered to be the right time to make significant changes to the existing framework.

The Government remains of the view that voluntary opt-in provides the most appropriate option for those earning under £10,000 who wish to save, and that it is beneficial to these individuals who wish to do so.

The Government has also looked at the impact of the introduction of the new National Living Wage in considering what the earnings trigger should be and will continue to monitor the impact of this on low earners and the interaction between this and the automatic enrolment earnings trigger.

## Qualifying earnings band

### Lower limit

Workplace pension saving is one of the building blocks for retirement income. Automatic enrolment with an employer contribution is intended to build on the foundation of state pension entitlement. The lower qualifying earnings band drives the minimum amount that people have to save and minimum employer contributions.

The difference between the earnings level that triggers automatic enrolment and the lower limit of the qualifying earnings band produces a de-minimis mechanism for contributions.

As shown by Table 1, setting the lower limit of the qualifying earnings band at the level of the 2016/17 National Insurance Contributions Primary Threshold of £8,060 and the trigger at £10,000 would produce a de-minimis gap of £1,940 and overall minimum contribution of around £3.23 a month. Setting the lower limit of the

qualifying earnings band at the level of the 2016/17 National Insurance Contributions Lower Earnings Limit of £5,824 and the trigger at £10,000 would produce a de-minimis gap of £4,176 and thus an overall minimum contribution for someone earning just above the trigger of around £6.96 a month<sup>3</sup>.

**Table 1** – Two examples of monthly pension contributions at different lower limit qualifying earnings band

<b>Trigger</b>	<b>Lower limit qualifying earnings band</b>	<b>De-minimis gap</b>	<b>Monthly pension contributions (1 per cent contribution by workers matched by employers)</b>
£10,000	£8,060	£1,940	£3.23
£10,000	£5,824	£4,176	£6.96

The Secretary of State considered all the review factors against the analytical evidence and the policy objectives and decided to retain the link with the National Insurance Contributions Lower Earnings Limit at its 2016/17 value of £5,824 as the lower limit of the qualifying earnings band for 2016/17.

## **Upper limit**

The upper limit of the qualifying earnings band caps mandatory employer contributions. It distinguishes the automatic enrolment target group of low to moderate earners from earners in a higher tax band who 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 concluded that mandatory employer contributions should still be capped and decided that the National Insurance Contributions Upper Earnings Limit at its 2016/17 value of £43,000 (up from its 2015/16 value of £42,385) is the factor that should determine the upper limit of the qualifying earnings band.

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<sup>3</sup> This figure assumes a minimum contribution during the first phasing profile of 1 per cent contribution by workers matched by employers.

# Proposed thresholds for 2016/17

The current (2015/16) and proposed (2016/17) automatic enrolment thresholds are displayed in Table 2.

**Table 2** – Current and proposed automatic enrolment thresholds

	<b>Trigger</b>	<b>Lower limit qualifying earnings band</b>	<b>Upper limit qualifying earnings band</b>
<b>Current (2015/16)</b>	£10,000	£5,824	£42,385
<b>Proposed (2016/17)</b>	£10,000	£5,824	£43,000

The analysis in this document presents the estimated costs, savings levels and demographic effects associated with the proposed automatic enrolment earnings thresholds and the options considered for 2016/17.

# Methodology

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

- Estimates of the number of workers for and from whom additional contributions are due;
- Estimates of the number of workers for and from whom additional contributions are due are based on Department for Work and Pensions (DWP) modelling which makes use of the latest available evidence on the employer and pensions' landscape, individuals' and employers' attitudes to pension provision and the workplace pension reforms, and employers' choice of pension scheme<sup>4</sup>.
- workers' average qualifying earnings estimated using the [Annual Survey of Hours and Earnings](#) (ASHE 2014)<sup>5</sup>; and
- Minimum contribution rates for employers and workers (both 1 per cent of band earnings in 2016/17) as outlined in regulations.

Estimates of **individual tax relief** are calculated by multiplying the estimates of individuals' additional pension contributions by the appropriate income tax rate.

Estimates of **employer tax relief** represent the tax no longer paid by employers who respond to the additional pension contribution costs of the workplace pension reforms by reducing profits or wages paid to their workers. These are calculated by multiplying the estimates of employers' additional pension contributions by estimates of the percentage of employers who will reduce profits or wages and then by the appropriate rate of corporation tax or employers' national insurance contributions respectively. Estimates of the percentage of employers responding to the additional costs of the reforms by reducing profits or wages are taken from the [2013 Employer Pension Provision survey](#)<sup>6</sup>.

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<sup>4</sup> A range of sources are used, including the Employer Pension Provision Survey 2013 and the Annual Survey of Hours and Earnings 2014. Further details of the sources and methods used are available in the Impact Assessment that accompanied the Employers' Duties (Implementation) (Amendment) Regulations 2012:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220500/wpr-rev-implementation-ia-final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220500/wpr-rev-implementation-ia-final.pdf)

<sup>5</sup> For more details on ASHE methodology, see the ONS documents here: <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Annual+Earnings>

<sup>6</sup> Table 6.18 shows employers' most likely strategy in response to the increase in total pension contribution costs resulting from automatic enrolment.

**Eligible workers** are defined as those:

- Ordinarily working in Great Britain;
- Aged at least 22 and under State Pension age;
- Earning more than £10,000 in 2016/17 earnings terms.

Estimates of the **demographic effects** of different earnings triggers are produced using the ASHE 2014 and the [Labour Force Survey](#) (LFS) 2013/14<sup>7</sup>. Analysis is presented for two groups: the population eligible for automatic enrolment (“the eligible population”) and the population who are eligible but not currently saving in a workplace pension – the “target population”. By definition all individuals in the target population are eligible for automatic enrolment. The definition of the target population is set out below.

**Target population:** covers eligible individuals who are either (i) not saving in a pension scheme; or (ii) saving in a pension scheme where the employer contributes less than 3 per cent of the individual’s salary, and is not a defined benefit scheme<sup>8</sup>.

ASHE 2014 was used to analyse the eligible target population by gender and age. LFS 2013/14 was used to analyse the eligible population by disability status and ethnicity<sup>9</sup>.

Estimates of the contribution costs 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 on the accuracy of the estimates are not available so some caution should be exercised in interpreting the figures presented.

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<sup>7</sup> The data sets: April – June 2013, July – September 2013, October – December 2013 and January – March 2014 were combined to represent 2013/14.

<sup>8</sup> Defined benefit pension schemes are occupational pension schemes specifying the benefits that are paid on retirement.

<sup>9</sup> LFS does not collect data on employer contributions to pensions so it is not possible to produce analysis for the eligible target population.

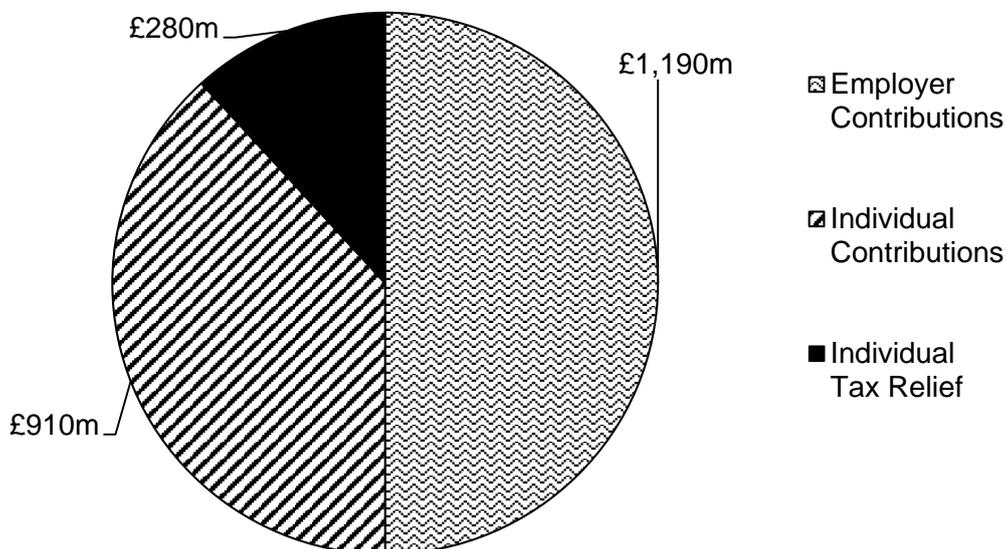
# Results

## Impact of proposed thresholds for 2016/17

Table 3 shows the impact on employers, individuals and Government associated with retaining the 2015/16 automatic enrolment earnings trigger in 2016/17 and the proposed qualifying earnings band for 2016/17.

Under the proposed thresholds, the overall level of pension saving is estimated to be £2,380 million in 2016/17, around £23 million higher than it would be if the thresholds remained at 2015/16 levels. Around £12 million of this increase would be from higher employer contributions; around £9 million would be from higher individual contributions; and around £3 million would be from increased tax relief on individual contributions. A breakdown of estimated pension saving in 2016/17 under the new proposed qualifying earnings band and retaining the 2015/16 trigger for automatic enrolment is shown by Chart 1.

**Chart 1** – Breakdown of estimated pension saving in 2016/17 under the proposed thresholds



**Table 3:** Estimated impact of changes to the earnings trigger and upper and lower limits of the qualifying earnings band on employers, individuals and Government ( £ million, in 2016/17)

	<b>Earnings Trigger</b>	<b>Qualifying Earnings Band - Lower Limit</b>	<b>Qualifying Earnings Band - Upper Limit</b>	<b>Employer Contributions</b>	<b>Individual Contributions</b>	<b>Individual Tax Relief</b>	<b>Level of Pension saving</b>	<b>Employer Tax Relief</b>
<b>Baseline</b>	£10,000	£5,824 (2015/16 National Insurance Lower Earnings Limit; current qualifying earnings band lower limit)	£42,385 (2015/16 Upper Earnings Limit; current qualifying earnings band upper limit)	£1,180m	£900m	£280m	£2,350m	£70m
<b>Proposal</b>	£10,000	£5,824 (2016/17 National Insurance Lower Earnings Limit)	£43,000 (2016/17 National Insurance Upper Earnings Limit)	£1,190m	£910m	£280m	£2,380m	£80m
<b>Difference</b>	-	-	+£615	+£12m	+£9m	+£3m	+£23m	+£1m

**Notes:**

1. Source: DWP Modelling.
2. Estimates are expressed in 2016/17 earnings terms.
3. Figures are rounded to the nearest £10 million and £1 million, as appropriate to reflect uncertainties associated with the modelling approach used, and therefore may not sum exactly.
4. Pension saving is the sum of employer contributions, individual contributions, and individual tax relief.

# Impact of changing the earnings trigger in 2016/17

Table 4 shows the impact on employers, individuals and Government associated with the 2015/16 earnings trigger in 2016/17<sup>10</sup> and various options considered for the value of the 2016/17 earnings trigger.

With an earnings trigger of £10,000, around 10 million individuals are estimated to be in the eligible target population for automatic enrolment, of which around 38 per cent are women.

Freezing the value of the automatic enrolment trigger at £10,000 in 2016/17 results in a real terms decrease in the trigger. This brings an additional 130,000 individuals into the target population (of whom around 91,000 (71 per cent) are women and an associated increase in pension saving of £6 million in 2016/17.

Raising the value of the automatic enrolment trigger from £10,000 to £11,000 (in line with the income tax personal allowance for 2016/17) would exclude around 180,000 individuals, of whom around 130,000 (71 per cent) would be women; and would reduce pension saving by £12 million compared with the baseline.

Statistics published by the Office for National Statistics show that women are more likely to work part-time<sup>11</sup> and earn less than men<sup>12</sup>, 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.

Setting the earnings trigger at the value of the 2016/17 National Insurance Contributions Primary Threshold of £8,060, would add around 950,000 individuals to the eligible target population and increase pension saving by around £30 million in 2016/17.

For individuals earning below the earnings trigger it may not be beneficial to direct their income from working life into workplace pension saving. Furthermore, anyone who is not automatically enrolled into a workplace pension because their earnings are below the trigger will retain the right to opt-in and will receive an employer contribution as long as they earn above the lower limit of the qualifying earnings band. Employers are required to provide information to individuals about their opt-in rights.

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<sup>10</sup> 2015/16 thresholds are converted into 2016/17 earnings terms in line with forecasted earnings growth

<sup>11</sup> See Labour Market Statistics published by ONS: <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/november-2015/index.html>

<sup>12</sup> See ONS analysis of the pay differences between men and women: <http://www.ons.gov.uk/ons/rel/ashe/patterns-of-pay/1997---2013-ashe-results/patterns-of-pay-2013.html#tab-Full-time-male-employees-earn-more-than-females-but-gap-has-narrowed>

**Table 4:** Estimates of the impact of changing the earnings trigger on employers, individuals and Government (£ million, in 2016/17)

<b>Earnings Trigger in 2016/17 terms</b>	<b>Rationale</b>	<b>Demographic Effects</b>	<b>Employer Contributions</b>	<b>Individual Contributions</b>	<b>Individual Tax Relief</b>	<b>Level of Pension Saving</b>	<b>Employer Tax Relief</b>
<b>£10,000 (Baseline) (in 2015/16 terms)</b>	Current trigger 2015/16	Target Population: 10m Women- 38% BME- 11% Disabled-12%	£1,180	£900	£280	£2,360	£70
<b>£5,824</b>	National Insurance Lower Earnings Limit (16/17)	increase in target population: 1.85m Of which women: 73%	£1,200 (+£16)	£910 (+£12)	£280 (+£4)	£2,400 (+£32)	£70 (+£1)
<b>£8,060</b>	National Insurance Primary Threshold (16/17)	Increase in target population: 0.95m Of which women: 71%	£1,200 (+£15)	£910 (+£12)	£280 (+£4)	£2,390 (+£30)	£70 (+£1)
<b>£9,990</b>	Uprate by estimated price inflation (CPI)	Increase in target population: 0.13m Of which women: 72%	£1,180 (+£3)	£900 (+£2)	£280 (+£1)	£2,370 (+£6)	£70 (£0)
<b>£10,000</b>	Freeze	Increase in target population: 0.13m Of which women: 71%	£1,180 (+£3)	£900 (+£2)	£280 (+£1)	£2,370 (+£6)	£70 (£0)
<b>£10,416</b>	Uprate by estimated earnings inflation (OBR)	Increase in target population: 0.00m	£1,180 (£0)	£900 (£0)	£280 (£0)	£2,360 (£0)	£70 (£0)
<b>£11,000</b>	Income Tax Personal Allowance (16/17)	Decrease in target population: 0.18m Of which women: 71%	£1,180 (-£6)	£900 (-£5)	£280 (-£1)	£2,350 (-£12)	£70 (£0)

**Notes:**

1. Source: DWP Modelling.
2. Estimates are expressed in 2016/17 earnings terms.
3. Scenarios after the baseline present the change in costs in brackets and accompanying demographic effects as compared to the baseline.
4. Figures are rounded to the nearest £10 million and £1 million, as appropriate to reflect uncertainties associated with the modelling approach used, and therefore may not sum exactly. Similarly, demographic effects are rounded to the nearest 1 million, 0.01 million and 1 per cent, as appropriate.
5. The lower and upper limits of the qualifying earnings band are held constant at their 2015/16 levels of £5,824 and £42,385 respectively.
6. Pension saving is the sum of employer contributions, individual contributions, and individual tax relief.
7. Demographic effects for gender have been estimated from the ASHE and from the LFS for ethnicity and disability. ASHE estimates are for the eligible target population and LFS estimates relate to the eligible population.
8. The 2015/16 trigger of £10,000 is equivalent to £10,416 in 2016/17.

## Impact of changing the lower limit of the qualifying earnings band in 2016/17

Table 5 shows the impact on employers, individuals and Government associated with the 2015/16 lower limit of the qualifying earnings band in 2016/17 and various options considered for the value of the 2016/17 qualifying earnings band lower limit.

Increasing the lower limit of the qualifying earnings band to the 2016/17 level of the National Insurance Contributions Primary Threshold of £8,060 would reduce the level of pension saving in 2016/17 by around £256 million when compared to the baseline lower limit. Around £128 million of this reduction would be due to reduced employer contributions; around £98 million would be due to reduced contributions from individuals; and around £30 million would be due to reduced tax relief on individuals' contributions.

Maintaining the lower limit of the qualifying earnings band at £5,824 in 2016/17 would result in a real terms decrease in the lower limit and increase the level of pension saving in 2016/17 by around £31 million when compared to the baseline lower limit of £5,824.

**Table 5:** Estimates of the impact of changing the lower limit of the qualifying earnings band on employers, individuals and Government (£ million, in 2016/17)

<b>Qualifying earnings band LEL (in 2016/17 terms)</b>	<b>Factor</b>	<b>Employer Contributions</b>	<b>Individual Contributions</b>	<b>Individual Tax Relief</b>	<b>Level of Pension Saving</b>	<b>Employer Tax Relief</b>
<b>£5,824 (in 2015/16 terms)</b>	Current LEL	£1,170	£890	£280	£2,340	£70
<b>£5,818</b>	Uprate by estimated price inflation (CPI)	£1,190 (+£16)	£910 (+£12)	£280 (+£4)	£2,370 (+£32)	£80 (+£1)
<b>£5,824</b>	Freeze	£1,180 (+£16)	£900 (+£12)	£280 (+£4)	£2,370 (+£31)	£80 (+£1)
<b>£8,060</b>	National Insurance Primary Threshold (16/17)	£1,040 (-£128)	£800 (-£98)	£250 (-£30)	£2,080 (-£256)	£70 (-£8)

**Notes:**

1. Source: DWP Modelling.
2. Estimates are expressed in 2016/17 earnings terms.
3. Scenarios after the baseline present the change in costs in brackets as compared to the baseline.
4. Figures are rounded to the nearest £10 million and £1 million, as appropriate to reflect uncertainties associated with the modelling approach used, and therefore may not sum exactly.
5. The earnings trigger and the upper limit of the qualifying earnings band are held constant at their 2015/16 levels of £10,000 and £42,385 respectively.
6. Pension saving is the sum of employer contributions, individual contributions, and individual tax relief.
7. The 2015/16 lower limit of the qualifying earnings band is equivalent to £6,066 in 2016/17

## Impact of changing the upper limit of the qualifying earnings band in 2016/17

Table 6 shows the impact on employers, individuals and Government associated with the 2015/16 upper limit of the qualifying earnings band in 2016/17 and various options considered for the value of the 2016/17 qualifying earnings band upper limit.

Increasing the upper limit of the qualifying earnings band in line with the 2016/17 level of the National Insurance Contributions Upper Earnings Limit of £43,000 would be a real terms reduction in the level of pension saving in 2016/17 by £14 million when compared to the baseline upper limit of £42,385.

Maintaining the upper limit of the qualifying earnings band at £42,385 in 2016/17 would result in a real terms decrease in the upper limit and reduce the level of pension saving in 2016/17 by around £22 million when compared to the baseline upper limit of £42,385.

**Table 6:** Estimates of the impact of changing the upper limit of the qualifying earnings band on employers, individuals and Government (£ million, in 2016/17)

Qualifying earnings band UEL (in 2016/17 terms)	Rationale	Employer Contributions	Individual Contributions	Individual Tax Relief	Level of Pension Saving	Employer Tax Relief
<b>£42,385 (Baseline)</b> (in 2015/16 terms)	Current UEL	£1,200	£910	£280	£2,390	£80
<b>£42,343</b>	Uprate by estimated price inflation (CPI)	£1,180 (-£11)	£900 (-£8)	£280 (-£3)	£2,370 (-£22)	£80 (-£1)
<b>£42,385</b>	Freeze	£1,180 (-£11)	£900 (-£8)	£280 (-£3)	£2,370 (-£22)	£80 (-£1)
<b>£43,000</b>	National Insurance Upper Earnings Limit (16/17)	£1,190 (-£7)	£910 (-£5)	£280 (-£2)	£2,380 (-£14)	£80 (£0)

**Notes:**

1. Source: DWP Modelling.
2. Estimates are expressed in 2016/17 earnings terms.
3. Scenarios after the baseline present the change in costs in brackets as compared to the baseline.
4. Figures are rounded to the nearest £10 million and £1 million, as appropriate to reflect uncertainties associated with the modelling approach used, and therefore may not sum exactly.
5. The earnings trigger and the lower limit of the qualifying earnings band are held constant at their 2015/16 levels of £10,000 and £5,824 respectively.
6. Pension saving is the sum of employer contributions, individual contributions, and individual tax relief.
7. The 2015/16 upper limit of the qualifying earnings band is equivalent to £44,148 in 2016/17

# Annex A: Equality implications of changes to the earnings trigger

We estimate that there are around 10 million workers in the eligible target population for automatic enrolment, (of which just under two in five (38 per cent) are women).

Freezing the automatic enrolment trigger at £10,000 results in a real terms decrease in the trigger and thus includes more individuals. This increase in the target population has been estimated at 130,000 (of which 71 per cent are women).

As women are more likely to work part-time, or earn less than men, there will be a higher proportion of them represented in the group included in automatic enrolment by a downward revision of the trigger.

Persistent low earners tend to find that the State, through pensions and benefits, provides them with an income in retirement similar to that in working life without the need for additional saving. For these individuals it may not be beneficial to direct income from working life into pension saving. Furthermore, anyone who is not automatically enrolled because of an increase in the earnings trigger will retain the right to opt in with an employer contribution. Employers will be required to provide information about these opt in rights.

The latest evidence suggests that the proportion of black and minority ethnic groups (BME) in the eligible group would remain at 10 per cent if the trigger was frozen at £10,000.

The latest evidence also suggests that freezing the earnings trigger at £10,000 would result in the proportion of disabled people in the revised eligible group remaining at 11 per cent.

The median age of those eligible for automatic enrolment freezing the earnings trigger at £10,000 is 41 years whilst the median age of those in the eligible target group is 39 which indicates that there is a slightly higher proportion of younger workers in the eligible target group in comparison to the eligible group. However specific age groups are not particularly affected by changing the value of the earnings trigger.

The changes under consideration for the 2016/17 review are not expected to particularly affect individuals according to their sexual orientation, religion or belief.

# Contact Details

Press enquiries should be directed to the Department for Work and Pensions press office.

Media enquiries: 0203 267 5129

Out of hours: 0203 267 5144

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