



Department
for Work &
Pensions

Review of the automatic enrolment earnings trigger and qualifying earnings band for 2017/18: supporting analysis

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Background

Automatic enrolment obliges employers to enrol all workers who satisfy age and earnings criteria into a qualifying 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 is being introduced gradually over 6 years. It began in October 2012 with the largest employers required to meet their automatic enrolment duties first. This is called staging. All large and medium sized employers (those with over 50 workers) have now staged. We are now in the most challenging period of roll-out with staging well underway for small and micro sized employers (those with 1-49 employees). To date, nearly 6.9 million workers have been automatically enrolled by more than 293,000 employers.¹

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.

The Pensions Act 2011 initially aligned the earnings trigger with the Personal Income Tax Threshold. 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 decided to carry out 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 and to retain the link with National Insurance for the upper and lower limits for qualifying band earnings. This position was maintained in 2016/17.

¹ Automatic Enrolment Declaration of Compliance Report, July 2012 – end October 2016, The Pensions Regulator. See: <http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf>

Annual review

Although the Secretary of State has some flexibility in the way the amounts for the earnings trigger and qualifying earnings band are set, section 14 of the Pensions Act 2008 sets out certain factors which the Secretary of State may take into account in reviewing these amounts. 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 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 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.

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 2017/18.

The pension's landscape has changed considerably over the past few years and automatic enrolment has been a step-change for individuals, employers and the industry alike. The programme is now in its most challenging phase with roll-out to small and micro employers well underway. This year's annual review of the automatic enrolment thresholds has therefore recognised the importance of stability against a backdrop of substantial change.

The Government has committed to review the scope and operation of automatic enrolment in 2017, mindful of the changes in the labour market and economic landscape. This will take stock of where things are now, what has been achieved over the past four years and ensure it continues to work for individuals and employers alike into the future.

As part of this wider review, the Government will look at the existing coverage of the policy and consider the needs of those groups currently under-represented in pension saving, for example employees with multiple jobs who do not meet the criteria for automatic enrolment in any individual job. For the 2017/18 tax year it is important that the annual automatic enrolment thresholds review does not pre-empt the outcome of the wider review in 2017.

Automatic enrolment earnings trigger

The earnings trigger determines who gets automatically enrolled. If the trigger is too high then low to moderate earners, for whom the policy is designed to target, may miss out. Set it too low and the people for whom it makes little sense to save for retirement 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, the majority of whom are women.

While we have not consulted this year, the Government remains sensitive to issues around the affordability of contributions for both individuals and employers. 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 the timing of this year's review preceding a broader review of automatic enrolment policy in 2017, the need for stability in this crucial stage of the programme's roll out, and the principle aim of affordability, 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 2017/18. This strikes the right balance between administrative simplicity and consistency for the employers implementing automatic enrolment up to 2018; and ensuring that the people brought into pensions saving are likely to benefit.

By definition, low earners will 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 and again in 2016/17.

Setting the earnings trigger below £10,000 would increase the number of low paid workers saving into a workplace pension. However, it would not meet some of the

main overall aims of the review. We want to ensure that the right people are brought into savings, and we also want to balance the costs and benefits between individuals and employers. The analysis in this document shows that freezing the value of the automatic enrolment trigger at £10,000 in 2017/18 results in a real terms decrease in the trigger. This brings an additional 70,000 individuals into the target population (of whom around 51,000 (75 per cent) are women) in 2017/18 compared to the 2016/17 earnings trigger.

In reaching this view, the Government has also considered in particular the fact that around 280,000 workers earn between £10,000 and £11,500 would not benefit from tax relief on their contributions if enrolled into a pension scheme that uses a Net Pay Arrangement. Small and micro employers should ask their provider about the tax implications before making a decision on the scheme they choose.

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>

The 2017 review of automatic enrolment will look at the existing coverage of the policy.

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. Recent research published by the IFS² shows that automatic enrolment has increased workplace pension membership by 28 percentage points among those earning under £10,000 per year (compared to a baseline of 18% prior to the reform). We do not know whether this is as a result of individuals opting-in or employers offering provision to these workers in addition to their eligible workforce.

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 earners and the interaction between this and the automatic enrolment earnings trigger.

² IFS Working Paper (W16/19), 'What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK': <http://www.ifs.org.uk/publications/8723>

Qualifying earnings band

Lower limit

Workplace pension saving is one of the building blocks of a more secure retirement income. Automatic enrolment into a workplace pension with an employer contribution in addition to that of the individual - plus tax relief from the Government - 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 2017/18 National Insurance Contributions Primary Threshold of £8,164 and the trigger at £10,000 would produce a de-minimis gap of £1,836 and overall minimum contribution of around £36.72 a year. Setting the lower limit of the qualifying earnings band at the level of the 2017/18 National Insurance Contributions Lower Earnings Limit of £5,876 and the trigger at £10,000 would produce a de-minimis gap of £4,124 and thus an overall minimum contribution for someone earning just above the trigger of around £82.48 a year³.

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

Trigger	Lower limit qualifying earnings band	De-minimis gap	Annual pension contributions (1 per cent contribution by workers matched by employers – includes tax relief)
£10,000	£8,164	£1,836	£36.72
£10,000	£5,876	£4,124	£82.48

The Secretary of State has considered all the review factors against the analytical evidence and the policy objectives and decided to retain the link with the National

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

Insurance Contributions Lower Earnings Limit at its 2017/18 value of £5,876 as the lower limit of the qualifying earnings band for 2017/18.

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 2017/18 value of £45,000 (up from its 2016/17 value of £43,000) is the factor that should determine the upper limit of the qualifying earnings band.

Proposed thresholds for 2017/18

The current (2016/17) and proposed (2017/18) automatic enrolment thresholds are displayed in Table 2.

Table 2 – Current and proposed automatic enrolment thresholds

	Trigger	Lower limit qualifying earnings band	Upper limit qualifying earnings band
Current (2016/17)	£10,000	£5,824	£43,000
Proposed (2017/18)	£10,000	£5,876	£45,000

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 2017/18.

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 by 2017/18 – 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 scheme⁴;
- workers' average qualifying earnings estimated using the latest Annual Survey of Hours and Earnings (ASHE) data⁵ for the year 2012/13 to establish the pensions landscape prior to the implementation of Automatic Enrolment; and
- contribution rates for employers and workers (where 30 to 40 per cent of employers immediately contribute 3 per cent and workers 5 per cent, based on the [2015 Employer Pension Provision \(EPP\) survey](#) evidence, otherwise both 1 per cent of band earnings in 2017/18 as outlined in regulations).

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 2017/18 earnings terms.

⁴ Since the review of the Automatic Enrolment thresholds for 2016/17, we have revised the way we estimate the volumes of individuals who will be automatically enrolled into a workplace pension by 2018 and the resulting changes in pension saving. A range of sources are used, including the latest Pay-As-You-Earn (PAYE) data from The Pensions Regulator's 2016 revised employer staging profile, and the Annual Survey of Hours and Earnings 2015. See page 11 of the DWP 'Workplace pensions: Update of Analysis on Automatic Enrolment 2016' published on 13th October 2016 for further information on the revised methodology: (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf)

Further details of the sources and methods used are also 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

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

Estimates of the **demographic effects** of different earnings triggers are produced using the latest ASHE data for the year 2012/13 and the [Labour Force Survey](#) (LFS) 2012/13⁶. 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 scheme⁷.

The latest ASHE data for the year 2012/13 was used to analyse the eligible target population by gender and age. LFS 2012/13 was used to analyse the eligible population by disability status and ethnicity⁸.

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 [2015 EPP survey](#)⁹.

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.

⁶ The data sets: April – June 2012, July – September 2012, October – December 2012 and January – March 2013 were combined to represent 2012/13.

⁷ Defined benefit pension schemes are occupational pension schemes specifying the benefits that are paid on retirement.

⁸ LFS does not collect data on employer contributions to pensions so it is not possible to produce analysis for the eligible target population.

⁹ Page 60 explains employers’ most likely strategy in response to the increase in total pension contribution costs resulting from automatic enrolment.

Results

Impact of proposed thresholds for 2017/18

Table 3 shows the impact on employers, individuals and Government associated with retaining the 2016/17 automatic enrolment earnings trigger in 2017/18 and the proposed qualifying earnings band for 2017/18.

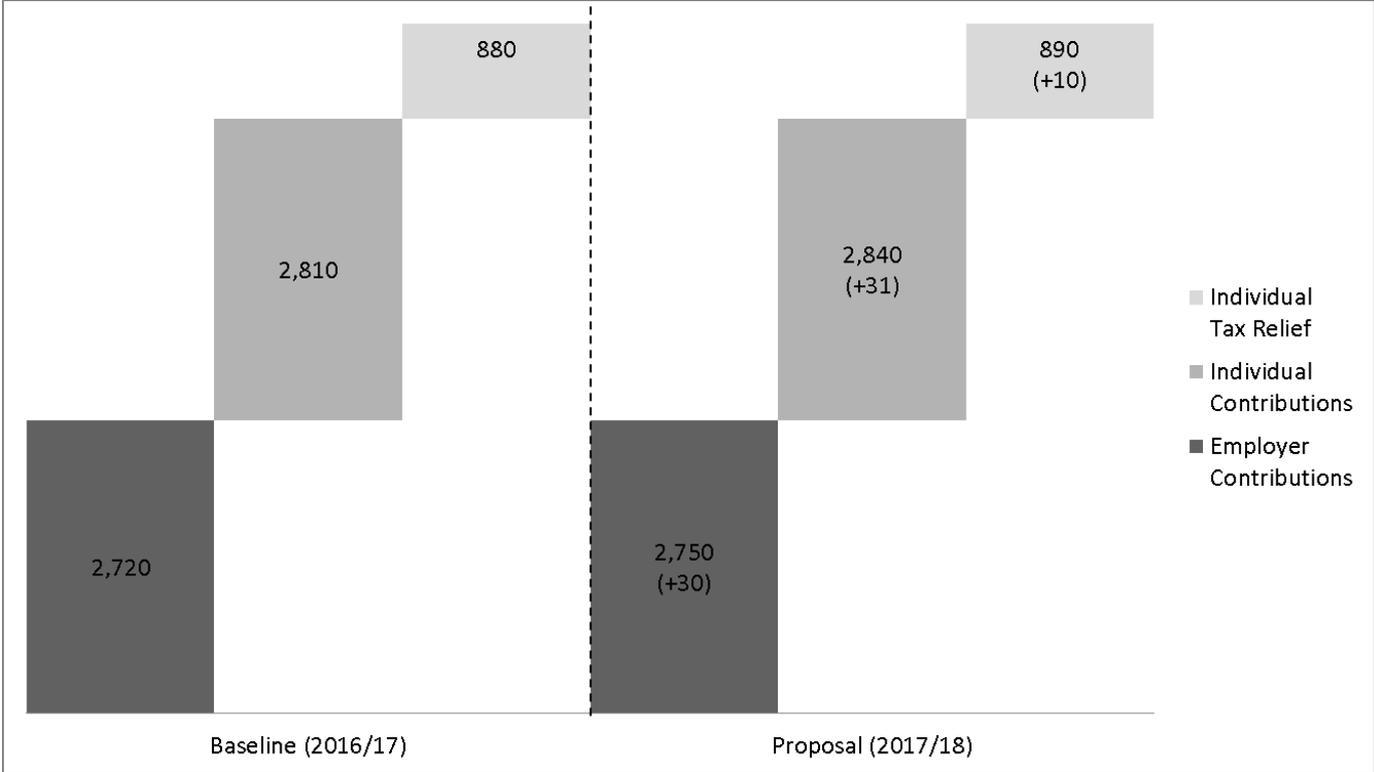
Under the proposed thresholds, the overall level of pension saving amongst the eligible target population is estimated to be £6,490 million in 2017/18, around £71 million higher than it would be if the thresholds remained at 2016/17 levels. Around £30 million of this increase would be from higher employer contributions; around £31 million would be from higher individual contributions; and around £10 million would be from increased tax relief on individual contributions. A breakdown of estimated pension saving in 2017/18 under the new proposed qualifying earnings band and retaining the 2016/17 trigger for automatic enrolment is shown by Chart 1.

DWP analysis¹⁰ shows that in 2015 the annual total amount being saved in the private sector by eligible employees was £43.6 billion, an increase of £5.5 billion from 2012. By 2019/20, it is estimated there will be an extra £17 billion of workplace pension saving per year as a result of automatic enrolment¹¹.

¹⁰ DWP's 'Workplace pensions participation and savings trends official statistic', December 2016: <https://www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2005-to-2015>

¹¹ DWP's 'Workplace pensions: Update of Analysis on Automatic Enrolment 2016', October 2016: (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf)

Chart 1 – Breakdown of estimated pension saving in 2017/18 under the proposed thresholds (£ million)



Notes:

Source: DWP Modelling.

1. Estimates are expressed in 2017/18 earnings terms.
2. 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.
3. Pension saving is the sum of employer contributions, individual contributions, and individual tax relief.

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 2017/18)

	Earnings Trigger	Qualifying Earnings Band Lower Limit	Qualifying Earnings Band Upper Limit	Employer Contributions	Individual Contributions	Individual Tax Relief	Level of Pension Saving	Employer Tax Relief
Baseline	£10,000 (2016/17)	£5,824 (2016/17 National Insurance Lower Earnings Limit; current qualifying earnings band lower limit)	£43,000 (2016/17 Upper Earnings Limit; current qualifying earnings band upper limit)	£2,720	£2,810	£880	£6,410	£250
Proposal	£10,000 (2017/18)	£5,876 (2017/18 National Insurance Lower Earnings Limit)	£45,000 (2017/18 National Insurance Upper Earnings Limit)	£2,750	£2,840	£890	£6,490	£250
Difference	-	+£52	+£2,000	+£30	+£31	+£10	+£71	+£3

Notes:

Source: DWP Modelling.

4. Estimates are expressed in 2017/18 earnings terms.
5. 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.
6. Pension saving is the sum of employer contributions, individual contributions, and individual tax relief.

Impact of changing the earnings trigger in 2017/18

Table 4 shows the impact on employers, individuals and Government associated with the 2016/17 earnings trigger in 2017/18¹² and various options considered for the value of the 2017/18 earnings trigger.

With an earnings trigger of £10,000, around 11 million individuals are estimated to be in the eligible target population for automatic enrolment, of which around 37 per cent are women.

Freezing the value of the automatic enrolment trigger at £10,000 in 2017/18 results in a real terms decrease in the trigger. This brings an additional 70,000 individuals into the target population (of whom around 50,000 (75 per cent) are women) and an associated increase in pension saving of £9 million in 2017/18.

Raising the value of the automatic enrolment trigger from £10,000 to £11,500 (in line with the income tax personal allowance for 2017/18) would exclude around 330,000 individuals, of whom around 230,000 (69 per cent) would be women; and would reduce pension saving by £52 million compared with the baseline.

Statistics published by the Office for National Statistics show that women are more likely to work part-time¹³ and earn less than men¹⁴, 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 2017/18 National Insurance Contributions Primary Threshold of £8,164, would add around 1,650,000 individuals to the eligible target population and increase pension saving by around £115 million in 2017/18.

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.

¹² 2015/16 thresholds are converted into 2016/17 earnings terms in line with forecast earnings growth

¹³ See Labour Market Statistics published by ONS:

<http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2016>

¹⁴ See analysis of the pay differences between men and women published in the Annual Survey of Hours and Earnings 2016 provisional results:

<http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2016provisionalresults>

Table 4: Estimates of the impact of changing the earnings trigger on employers, individuals and Government (£ million, in 2017/18)

Earnings Trigger	Rationale	Demographic Effects	Employer Contributions	Individual Contributions	Individual Tax Relief	Level of Pension Saving	Employer Tax Relief
£10,000 (Baseline)	Current trigger (16/17)	Target Population: 11m Women- 37% BME- 9% Disabled-10%	£2,730	£2,810	£880	£6,430	£250
£5,876	NI Lower Earnings Limit (17/18)	Included Group: 1.65m Of which women: 74%	+£49	+£51	+£16	+£115	+£4
£8,164	NI Primary Threshold (17/18)	Included Group: 0.75m Of which women: 71%	+£33	+£34	+£11	+£78	+£3
£10,000	Freeze	Included Group: 0.07m Of which women: 75%	+£4	+£4	+£1	+£9	£0
£10,090	Uprate by estimate price inflation (CPI)	Included Group: 0.05m Of which women: 74%	+£3	+£3	+£1	+£7	£0
£10,255	Uprate by estimate earnings inflation (equivalent to baseline)	Included Group: 0.00m	£0	£0	£0	£0	£0
£11,500	Income Tax Personal Allowance (17/18)	Excluded Group: 0.33m Of which women: 69%	-£22	-£23	-£7	-£52	-£2

Notes:

Source: DWP Modelling.

1 Estimates are expressed in 2017/18 earnings terms.

2 Scenarios after the baseline present the change in costs and demographic effects when compared to the baseline

3 Figures are to the nearest £10m and £1m as appropriate to reflect uncertainties associated with the modelling approach used, and therefore may not sum exactly.

4 Similarly, demographic effects are rounded to the nearest 0.01m and 1 per cent, as appropriate.

5 The lower and upper bands are held constant at their 2016/17 levels of £5,824 and £43,000 respectively.

6 The CPI measure of inflation was 0.9% in October 2016.

7 The OBR's forecast for private sector earnings growth between 2016Q4 and 2017Q4 of 2.55% was used.

8 Pension saving is the sum of individual tax relief, employer contribution and individual contribution costs.

9 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 workers.

10 Demographic effects for women are estimated from the latest Annual Survey of Hours and Earnings for the year 2012/13 and from the 2012/13 ONS Labour Force Survey for ethnicity and disability.

Impact of changing the lower limit of the qualifying earnings band in 2017/18

Table 5 shows the impact on employers, individuals and Government associated with the 2016/17 lower limit of the qualifying earnings band in 2017/18 and various options considered for the value of the 2017/18 qualifying earnings band lower limit.

Increasing the lower limit of the qualifying earnings band to the 2017/18 level of the National Insurance Contributions Primary Threshold of £8,164 would reduce the level of pension saving in 2017/18 by around £735 million when compared to the baseline lower limit. Around £312 million of this reduction would be due to reduced employer contributions; around £322 million would be due to reduced contributions from individuals; and around £101 million would be due to reduced tax relief on individuals' contributions.

Increasing the lower limit of the qualifying earnings band in line with the National Insurance Lower Earnings Limit of £5,876 in 2017/18 would result in an increase in the level of pension saving in 2017/18 by around £32 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 employers, individuals and Government (£ million, in 2017/18)

Qualifying earnings band LEL	Factor	Employer Contributions	Individual Contributions	Individual Tax Relief	Level of Pension Saving	Employer Tax Relief
£5,824 (baseline)	Current LEL (16/17)	£2,710	£2,800	£880	£6,380	£244
£5,824	Freeze	+£21	+£22	+£7	+£50	+£2
£5,876	NI LEL (17/18)	+£14	+£14	+£4	+£32	+£1
£5,876	Uprate by estimate price inflation (CPI)	+£14	+£14	+£4	+£32	+£1
£5,972	Uprate by estimate earnings inflation (equivalent to baseline)	£0	£0	£0	£0	£0
£8,164	NI Primary Threshold (17/18)	-£312	-£322	-£101	-£735	-£28

Notes:

Source: DWP Modelling.

1 Estimates are expressed in 2017/18 earnings terms.

2 Scenarios after the baseline present the change in costs when compared to the baseline

3 Figures are to the nearest £10m and £1m as appropriate to reflect uncertainties associated with the modelling approach used, and therefore may not sum exactly.

4 Similarly, demographic effects are rounded to the nearest 0.01m and 1 per cent, as appropriate.

5 The lower and upper bands are held constant at their 2016/17 levels of £5,824 and £43,000 respectively.

6 The CPI measure of inflation was 0.9% in October 2016.

7 The OBR's forecast for private sector earnings growth between 2016Q4 and 2017Q4 of 2.55% was used.

8 Pension saving is the sum of individual tax relief, employer contribution and individual contribution costs.

9 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 workers.

Impact of changing the upper limit of the qualifying earnings band in 2017/18

Table 6 shows the impact on employers, individuals and Government associated with the 2016/17 upper limit of the qualifying earnings band in 2017/18 and various options considered for the value of the 2017/18 qualifying earnings band upper limit.

Increasing the upper limit of the qualifying earnings band in line with the 2017/18 level of the National Insurance Contributions Upper Earnings Limit of £45,000 would result in a real terms increase in the level of pension saving in 2017/18 by £30 million when compared to the baseline upper limit.

Freezing the upper limit of the qualifying earnings band at £43,000 in 2017/18 would result in a real terms decrease in the upper limit and reduce the level of pension saving in 2017/18 by around £38 million when compared to the baseline upper limit.

Table 6: Estimates of the impact of changing the upper limit of the qualifying earnings band on employers, individuals and Government (£ million, in 2017/18)

Qualifying earnings band UEL	Factor	Employer Contributions	Individual Contributions	Individual Tax Relief	Level of Pension Saving	Employer Tax Relief
£43,000 (baseline)	Current UEL (16/17)	£2,750	£2,830	£890	£6,470	£250
£43,000	Freeze	-£16	-£17	-£5	-£38	-£1
£43,215	Uprate by estimate price inflation (CPI)	-£10	-£11	-£3	-£24	-£1
£44,684	Uprate by estimate earnings inflation (equivalent to baseline)	£0	£0	£0	£0	£0
£45,000	NI Upper Earnings Limit (17/18)	+£13	+£13	+£4	+£30	+£1

Notes:

Source: DWP Modelling.

1 Estimates are expressed in 2017/18 earnings terms.

2 Scenarios after the baseline present the change in costs when compared to the baseline

3 Figures are to the nearest £10m and £1m as appropriate to reflect uncertainties associated with the modelling approach used, and therefore may not sum exactly.

4 Similarly, demographic effects are rounded to the nearest 0.01m and 1 per cent, as appropriate.

5 The lower and upper bands are held constant at their 2016/17 levels of £5,824 and £43,000 respectively.

6 The CPI measure of inflation was 0.9% in October 2016.

7 The OBR's forecast for private sector earnings growth between 2016Q4 and 2017Q4 of 2.55% was used.

8 Pension saving is the sum of individual tax relief, employer contribution and individual contribution costs.

9 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 workers.

Annex A: Equality implications of changes to the earnings trigger

We estimate that there are around 11 million workers in the eligible target population for automatic enrolment, of which just under two in five (37 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 70,000 (of which 75 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 9 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 10 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 38 which indicates that there is a slightly higher proportion of younger workers in the eligible target group in comparison to the eligible group. This is unsurprising given that typically participation in workplace pensions has risen with age.

The changes under consideration for the 2017/18 review are not expected to particularly affect individuals according to their sexual orientation, religion or belief.

Contact Details

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