

## 2017/18 Earnings Thresholds for Automatic Enrolment

The DWP has to review the level of the earnings trigger and the qualifying earnings band (QEB) for automatic enrolment every year and must consider what the appropriate rates are on an annual basis. Changes in the DWP's methodology, when determining the thresholds from one year to the next, should therefore not be unexpected.

In some years, this review includes a public consultation, while in others, such as for 2017/18, the review is conducted internally with no industry consultation. The DWP's [analysis](#) of next year's earnings trigger and qualifying earnings band highlights a continuing desire to retain consistency.

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### The Earnings Trigger

This is the level of earnings from which jobholders are automatically enrolled into a workplace pension scheme. It is currently set at £10,000 for the 2016/17 tax year (and unchanged since the 2014/15 tax year).

### The Qualifying Earnings Band

Employers are obliged to automatically enrol workers meeting age criteria and the earnings trigger and pay at least a minimum level of contributions based upon a band of qualifying earnings. The QEB is currently aligned with the lower earnings limit (LEL) and upper earnings limit (UEL) for National Insurance contributions (NIC) purposes.

### What has the government decided?

#### The Earnings Trigger

The government is seeking to balance the affordability of automatic enrolment with the overriding factor of ensuring that people have sufficient retirement income savings.

The reason for freezing the earnings trigger at £10,000 was it was felt that this struck the right balance between administrative simplicity and ensuring that the people brought into pensions saving were likely to benefit. There was recognition that low earners were more likely to be disproportionately represented in the group excluded

from automatic enrolment by the earnings trigger. Furthermore, this group included a disproportionate amount of women.

The government acknowledges the disadvantage of this option is that the link between the earnings trigger and tax relief is broken, and that around 280,000 workers earning below £11,500 whose employers use Net Pay Arrangements – which is normally the case in occupational pension schemes - wouldn't benefit from tax relief on their contributions.

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 DWP has decided that the current threshold of £10,000 remains the right level and therefore will not change for 2017/18.**

#### **The 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 QEB 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 QEB produces a de-minimis mechanism for contributions.

Setting the lower limit of the QEB at the level of the 2017/18 Primary Threshold for NICs 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 QEB at the level of the 2017/18 LEL for NICs 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 year. (This assumes employers match the current minimum employee contribution under automatic enrolment of 1%.)

**The DWP has decided to retain the link with the LEL for NICs at its 2017/18 value of £5,876 as the lower limit of the QEB for 2017/18.**

#### **The Qualifying Earnings Band (Upper Limit)**

The upper limit of the QEB 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 pension saving.

**The DWP has concluded that mandatory employer contributions should still be capped and decided that the UEL for NICs 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 QEB.**

## Next Steps

The DWP has published a detailed analysis of its methodology for reviewing the automatic enrolment earnings thresholds, including the impact of changing the earnings trigger and the upper/lower limits of the QEB. An Order is now expected to be published by the DWP early in 2017 to legislate for the new thresholds. A draft Order has already been issued.

Employers, trustees and providers should be aware of these new thresholds and ensure that their relevant payroll systems are updated accordingly.

**Comment.** The government's annual balancing act on automatic enrolment, of trying to increase retirement saving, while doing so at a level that is affordable to both employers and employees, is a difficult one.

This year will see the fifth anniversary of the introduction of automatic enrolment. In addition to the very smallest employers now reaching their staging dates, many employers will either soon be reaching their triennial re-enrolment dates (or be starting to plan for re-enrolment).

For those employers that are approaching their re-enrolment date, or are unsure of when this occurs, please speak to your consultant for more details.

As the government acknowledges, there is no perfect answer when setting the earnings trigger and QEB, but its decision to focus on simplicity and consistency as much as possible is to be welcomed. Furthermore, 2017 will see the government conduct a wide ranging of automatic enrolment, and it seems appropriate to retain the status quo ahead of possibly other fundamental policy changes later in the year, which the DWP can consider when reviewing the earnings trigger and QEB for 2018/19.

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