BUCK

UK

FYI®

For Your Information®

2019/20 Earnings Thresholds for Automatic Enrolment

Volume 2019

Issue 04

11 January 2019

Authors
John Dunkley
Nikki Williams

The DWP has to review the level of the earnings trigger and the qualifying earnings band for automatic enrolment every year and must consider what the appropriate rates are on an annual basis.

In some years this review includes a public consultation, while in others, such as for 2019/20, the review is conducted internally with no industry consultation. The DWP's analysis of this year's earnings trigger and qualifying earnings band highlights a continuing desire to retain consistency (albeit with some consequences for low earners).

2019/20 Earnings Thresholds

Earnings Trigger: £10,000

Lower limit of QEB: £6,136

Upper limit of QEB: £50,000

Background

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 (and is unchanged since the 2014/15 tax year).

The Qualifying Earnings Band (QEB)

Employers are obliged to automatically enrol jobholders 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 because 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 does acknowledge that where the link between the earnings trigger and tax relief is broken, low-paid members of pension schemes operating net pay arrangements to provide tax relief are disadvantaged (see below).

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 government's annual 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 has always been that that voluntary opt-in to automatic enrolment 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 2019/20.

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 limit of the QEB drives the minimum amount that people have to save and minimum employer contributions.

The DWP has decided to retain the link with the LEL for NICs at its 2019/20 value of £6,136 as the lower limit of the QEB for 2019/20.

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 2019/20 value of £50,000 is still the factor that should determine the upper limit of the QEB.

The net pay issue

The DWP's announcement of this year's earnings thresholds has once again focused attention on the disparity between contract-based and trust-based pension schemes in terms of tax relief for low earners.

The personal allowance (confirming the point at which earnings become subject to income tax) will rise to £12,500 from April 2019, well above both the earnings trigger and lower limit of the QEB for automatic enrolment.

In contract-based pension schemes, such as group personal pensions, tax relief is provided via what is known as relief at source. This provides members with 20% basic rate tax relief on their contributions, after income tax is deducted from their pay, irrespective of whether they earn enough to pay income tax or not.

Trust-based pension schemes generally operate tax relief using net pay arrangements, where tax relief is not applied to member contributions of non-tax payers, as contributions are paid before tax is deducted from an individual's pay. This means that members of such occupational pension schemes earning less than the personal allowance miss out on tax relief on their pension contributions altogether.

Over a million people are thought to be affected by this anomaly. This is something that the government is aware of, and indeed, has known about for some time.

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 low earners. 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 applying pension tax relief, to explore the current difference in treatment, and ensure that it can make the most of any new opportunities, balancing simplicity, fairness, and practicality.

What seems clear though is resolving the net pay issue currently sits in the government's 'too difficult' pile of work. A short term solution, while needed, is not currently envisaged.

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 2019 to legislate for the new thresholds.

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

Produced by the Knowledge Resource Centre
The Knowledge Resource Centre is responsible for national multi-practice compliance consulting, analysis and publications, government relations, research, surveys, training, and knowledge management. For more information, please contact your consultant or call us on 0800 066 5433.