

EXPLANATORY MEMORANDUM TO
THE AUTOMATIC ENROLMENT (EARNINGS TRIGGER AND QUALIFYING
EARNINGS BAND) ORDER 2015

2015 No. 468

1. This explanatory memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

This instrument sets out revised amounts for the 2015/16 tax year for the automatic enrolment qualifying earnings band and rounded figures for that band.

3. Matters of special interest to the Joint Committee on Statutory Instruments

None

4. Legislative Context

4.1 The amounts for the qualifying earnings band were set initially in the Pensions Act 2008 (<http://www.legislation.gov.uk/ukpga/2008/30/contents>). The Pensions Act 2011 (<http://www.legislation.gov.uk/ukpga/2011/19/contents>) set the automatic enrolment trigger, amended the review provision and inserted the rounding provisions. The legislation requires the Secretary of State to review the automatic enrolment and re-enrolment earnings trigger and the qualifying earnings band each tax year and revise, by Order, if he considers that any of the amounts should be increased or decreased.

4.2 The Secretary of State has discretion to increase or decrease the amounts and may take into account the prevailing personal tax threshold; Class 1 National Insurance contributions limits and thresholds; the rate of basic state pension and the general level of prices and earnings, or any other factors he considers are relevant. He has the power to prescribe annual thresholds and proportionate amounts to match pay periods. He also has the power, in respect of the rounded figures, to specify the amount as a figure of whole pounds, a figure that is divisible by 10 pence or a figure that includes a whole number of pennies. It is for the Secretary of State to decide whether to round any particular amount up or down.

4.3 Following the review in 2013, revised amounts for 2014/15 were set out in The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2014 <http://www.legislation.gov.uk/id/ukdsi/2014/9780111108161>.

4.4 The Secretary of State has considered whether the amounts of the qualifying earnings band and the earnings trigger should be changed and has concluded that the amounts for the qualifying earnings band should be revised for the tax year 2015/16 and that the automatic enrolment earnings trigger should remain at £10,000.

4.5 This Order sets new amounts for 2015/16 in respect of the qualifying earnings band and revokes only article 3 of the 2014 Order.

5. Territorial Extent and Application

The Order applies to Great Britain. Separate but corresponding provision will be made for Northern Ireland.

6. European Convention on Human Rights

The Rt. Hon. Steve Webb MP, Minister for Pensions, has made the following statement regarding Human Rights:

“In my view the provisions of The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2015 are compatible with the Convention Rights”

7. Policy background

What is being done and why

7.1 The automatic enrolment and re-enrolment earnings trigger is the level of earnings at which employers are obliged to automatically enrol (and re-enrol) eligible jobholders into a qualifying workplace pension scheme. Employers are then obliged to pay overall contributions at least equal to 8 per cent of a band of qualifying earnings made up of salary, wages, commission, bonuses, overtime and statutory sickness, maternity, paternity and adoption pay.

7.2 The Secretary of State has taken into account the fact that the income tax threshold has increased much faster than earnings and at a rate that was not anticipated. He has concluded that maintaining the amount of the earnings trigger at £10,000 will serve to bring more people into pension saving while being an amount that can be easily explained by employers.

7.3 The Secretary of State has concluded that the National Insurance contributions lower earnings limit remains the most relevant point to begin private savings for retirement. It aligns with a recognised payroll threshold and ensures that even workers earning just over the automatic enrolment trigger of £10,000 will continue to make pensions contributions based on a meaningful portion of their salary. Consequently, the Order provides for the lower limit of the qualifying earnings band to be aligned with the lower earnings limit for 2015/16.

7.4 He has also concluded that the upper limit of the qualifying earnings band should continue to serve as a cap on mandatory employer contributions and should also serve to focus employer contributions on standard rate taxpayers. Taking that into account he has concluded that the upper limit of the qualifying earnings band should continue to be aligned with the National Insurance contributions upper earnings limit.

Consolidation

7.5 Informal consolidated text of instruments is available to the public free of charge via ‘The Law Relating to Social Security’ (Blue Volumes) on the Department for Work and Pensions website at <http://www.dwp.gov.uk/publications/specialist-guides/law-volumes/the-law-relating-to-social-security/> or the National Archive website

legislation.gov.uk. An explanation as to which instruments are maintained on each site is available [here](#).

8. Consultation

8.1 The duty to review the automatic enrolment and re-enrolment trigger and the qualifying earnings band must be discharged in relation to each tax year. The power to substitute new amounts is a flexible power that allows the Secretary of State discretion to set the automatic enrolment thresholds every year.

8.2 To assist the Secretary of State in setting the amounts, he consulted on the principles and the direction of travel for 2015/16. In arriving at his decision, he has taken the results of the consultation into consideration.

8.3 The consultation ran for 6 weeks from 15 October 2014 until 25 November 2014. We received 37 formal written responses to the consultation on this year's amounts from employer organisations, pension providers, accountants, independent financial advisers, lawyers, actuaries, trades unions and consumer organisations.

8.4 Responses to this year's consultation highlight the ongoing issues and competing priorities that have a bearing on the thresholds for this year. The challenge is, as in previous years, balancing coverage, pension savings and employer costs.

8.5 Responses to the earnings trigger aspects of the consultation were split fairly evenly between those who favoured the simplicity and predictability of alignment with the Income Tax threshold and those who were concerned that alignment would exclude too many from pension saving. The majority of respondents, regardless of their favoured option, stressed the importance of having a trigger that is simple to administer and to explain.

8.6 Most respondents were in favour of maintaining alignment with National Insurance (NI) thresholds when it came to the qualifying earnings band although a sizeable minority thought the lower limit should be removed altogether to introduce savings from the first pound earned. The upper limit was more widely supported with most who responded agreeing that it met the policy intent.

8.7 On 17 December 2014 the Secretary of State attached to a written statement a copy of the Government response to the consultation *Automatic enrolment earnings thresholds review and revision 2015 / 2016*.

9. Guidance

The Pensions Regulator will update its on-line Guidance for employers and payroll providers with the new thresholds.

10. Impact

A full impact assessment has not been published for this instrument because it amends an existing regulatory regime and the associated administrative costs are low. Publication of a full impact assessment is not necessary for such legislation. Nevertheless, the Secretary of State has considered the impact of the various options for each of the thresholds and an analysis of volumes and costs was published with the Government's response to the public

consultation on the automatic enrolment earnings thresholds review and revision for 2015/2016 on: <https://www.gov.uk/government/consultations/workplace-pensions-automatic-enrolment-review-of-earnings-threshold>

11. Regulating small business

The automatic enrolment legislation places a duty on all employers, whatever their size, to automatically enrol eligible workers into a workplace pension arrangement. Implementation is staged with smaller employers starting to become subject to the automatic enrolment duty in the 2015/2016 tax year.

12. Monitoring & review

The automatic enrolment thresholds are subject to review each tax year.

13. Contact

For any queries regarding this instrument, please contact Alison Evans at the Department for Work and Pensions Telephone number: 020 7449 5758 or e-mail: Alison.evans@dwp.gsi.gov.uk.