

26 January 2012

Jane Stewart  
Department for Work and Pensions  
Enabling Retirement Savings Programme  
7<sup>th</sup> Floor  
Caxton House  
London SW1H 9NA

**Catherine.cunningham@napf.co.uk**  
**Direct: +44 (0) 20 7601 1723**

Dear Ms Stewart

**Automatic Enrolment Earnings Thresholds Review and Revisions 2012/2013 – NAPF response**

The NAPF is the voice of workplace pensions. We represent some 1,200 pension schemes from all parts of the economy and 400 businesses providing essential services to the pensions industry. Ten million working people currently belong to NAPF member schemes, while around 5 million pensioners are receiving valuable retirement income from those schemes. The NAPF welcomes the opportunity to respond to the DWP's Automatic Enrolment Earnings Thresholds Review and Revision 2012/2013. We believe automatic enrolment is a fundamental part of the solution to the UK's pension savings crisis. Without action, the majority of today's workers will face poverty in retirement, with only means-tested benefits to support them. The Pensions Commission itself recommended widening access to workplace pensions through automatic enrolment - so that all employees have access to a pension with an employer contribution.

**Summary of NAPF view**

We recommend that the DWP proceeds with Option 2: Use PAYE thresholds and NICs LELs to determine the earnings trigger and lower qualifying earnings limit for 2012/2013. We believe this will reduce burdens on employers to monitor and assess the earnings of lower paid workers and will help make automatic enrolment simpler for employers.

The NAPF shares the Government's desire to automatically enrol as many people into pension saving as possible, as long as they will benefit from saving. Throughout the debate around automatic enrolment, there have been concerns about employees on low incomes and the interaction with means tested benefits. This is why we welcomed the Government's Green Paper *A State Pension System for the 21<sup>st</sup> Century* and support the Single Tier option for reform – combining the Basic State Pension and State Second Pension (S2P) into a single, simple pension of £140 a week. We believe the Single Tier pension will complement auto-enrolment by improving individuals' incentives to save.

It is therefore important that the design of automatic enrolment supports this objective. This is why the NAPF supported the Making Automatic Enrolment Work (MAEW) Review's recommendation of separating the earnings trigger from the lower band of qualifying earnings. We agree that the separate earnings trigger will help address the issue of individuals' making contributions on very small proportions of their earnings. The

MAEW Review Team also recommended that the earnings trigger be aligned with existing tax thresholds to make it easier for employers to administer.

Wherever the earnings trigger is set it creates a burden for employers to monitor and assess which side of the trigger lower-paid employees sit. This is particularly difficult where employees have volatile earnings and many NAPF members have strong concerns about how onerous this will be. We therefore agree with the Review Team and strongly endorse the concept of the trigger being linked to tax thresholds, as a way of simplifying one aspect of the extremely complicated auto-enrolment process. Aligning these automatic enrolment thresholds with existing thresholds for tax and NICs will help employers coordinate the new automatic enrolment thresholds with their existing systems. We therefore recommend that the DWP proceeds with Option 2: Use PAYE thresholds and NICs LELs to determine the earnings trigger and lower qualifying earnings limit for 2012/2013.

Going forward, it may not be appropriate to permanently link the automatic enrolment thresholds with PAYE and NICs levels considering the Coalition Government's commitment to increase the personal tax allowance to £10,000 by the end of this Parliament. Increasing the earnings trigger to £10,000 would exclude 17% of all employees. It would disproportionately exclude women, with 27% of female employees earning less than £10,000, and part-time workers, with 58% of part time jobs earning less than £10,000.<sup>1</sup> Therefore, this link needs to be carefully considered at future reviews of the automatic enrolment thresholds.

If you have any questions about this response please do not hesitate to contact me.

With best wishes



**Catherine Cunningham**

Policy Adviser: Pensions

0207 601 1723

---

<sup>1</sup> ONS