

15 October 2012

Jane Stewart
Department for Work and Pensions
Enabling Retirement Savings Programme
1st Floor, Caxton House
London SW1H 9NA

Dear Ms Stewart,

Automatic enrolment earnings thresholds review and revision 2013 / 2014

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 strongly supports automatic enrolment, which we believe is a fundamental part of the solution to the pension savings crisis in the UK. Without this important action, millions of today's workers would face poverty in retirement. The NAPF also welcomes the opportunity to respond to the DWP's Automatic Enrolment Earnings Thresholds Review and Revision 2013/2014.

Summary of the NAPF view

The NAPF supports the DWP's emerging proposals; that the automatic enrolment earnings trigger be aligned with the PAYE threshold and be raised to £9,205, the lower limit for the qualifying earnings band to be aligned with NIC lower earnings limit at around £5,720 and the upper limit of the qualifying earnings band to align with the NIC upper earnings limit at £41,450.

However, the NAPF remains concerned that low-income earners are not excluded from automatic enrolment as the earnings trigger raises in line with the PAYE threshold. Therefore, the NAPF recommends that this issue be considered as part of the independent review of automatic enrolment scheduled for 2017.

The upcoming months and years will see many changes to pensions in the UK. These changes include the introduction of a single-tier State Pension, as set out in *A State Pension for the 21st Century*; an innovation which the NAPF supports. Starting from 1 October, automatic enrolment is also ensuring that millions of workers are enrolled into workplace pensions. The NAPF strongly supports automatic enrolment, and shares the Government's desire to see as many people as possible enrolled in adequate workplace pension schemes

with employer contributions. These proposals complement each other well, since reform of the State Pension creates greater incentives for individuals to save in workplace pensions. However, it is important that the continuing reform of pensions complements other areas of Government policy. For example, the NAPF welcomes the Government's Red Tape Challenge, which seeks to reduce the administrative burden on employers. It is important that the DWP's proposals on the automatic enrolment earnings trigger do not undermine the Red Tape Challenge.

As automatic enrolment is introduced, employers are concerned about the potential administrative and regulatory burden. Monitoring and assessing employees' pay can be highly burdensome for employers. This is particularly difficult where employees have volatile earnings; for instance, where they work part-time or irregular hours. NAPF members have raised concerns about the complexity of the current system for categorising employees based on earnings. Removing the link between the automatic enrolment earnings trigger and the PAYE threshold will further add to this complexity. **Therefore, the NAPF recommends raising the automatic earnings trigger to £9,205 so that it remains aligned with the PAYE threshold and retaining the lower limit for the qualifying earnings band at the NIC lower earnings limit.**

With regards to the upper limit of the qualifying earnings band, the group affected by a reduction of the upper limit from £42,475 to £41,450 are not the primary targets of automatic enrolment. Instead, this group are more likely to already have membership of a workplace pension scheme. Indeed, the Office for National Statistics estimates that around 60% of employees in this earnings band are members of a workplace pension scheme, compared to 33% of all employees. This group is also likely to be paying higher contributions or to have a personal pension. Given the administrative burden of removing the link between automatic enrolment limits and tax limits, **the NAPF recommends reducing the upper limit of the qualifying earnings band to £41,450 in line with the NIC upper earnings limit.**

However, the NAPF remains concerned that automatic enrolment is applied as widely as possible. If the automatic enrolment earnings trigger were increased in line with the Coalition Government's pledge to increase the personal tax allowance to £10,000, a substantial number of employees could be excluded. Figures from the Office for National Statistics suggest that placing the earnings trigger at £10,000 would exclude 17% of all employees. It would also disproportionately affect women, since 27% of female employees earn less than £10,000. It is important that the impact of increasing the earnings trigger is considered as automatic enrolment is staged in. **Therefore, the NAPF recommends that the impact of linking the earnings trigger with tax thresholds is considered as part of the independent review of automatic enrolment scheduled for 2017.**

Yours sincerely,

Gary Moore

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