

EXPLANATORY MEMORANDUM TO
THE AUTOMATIC ENROLMENT (EARNINGS TRIGGER AND QUALIFYING
EARNINGS BAND) ORDER 2014

2014 No. 623

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 2014/15 tax year for the automatic enrolment and re-enrolment earnings trigger and the qualifying earnings band.

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

None

4. Legislative Context

4.1 These amounts were set initially in the Pensions Act 2008. The Pensions Act 2011 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 2012, revised amounts for 2013/14 were set out in The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2013.
<http://www.legislation.gov.uk/uksi/2013/667>

4.4 The Secretary of State has concluded that the prescribed amounts for the automatic enrolment and re-enrolment earnings trigger and the qualifying earnings band should be revised for the tax year 2014/15.

4.5 This Order sets new amounts for 2014/15 and revokes article 3 of the 2013 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

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 2014 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 believes that automatic enrolment should be as straightforward as possible for people to understand and employers to administer. He believes that automatic enrolment thresholds should, wherever possible, be aligned with existing payroll thresholds that employers are familiar with.

7.3 The Secretary of State has concluded that it is appropriate to enrol people automatically into workplace pension saving once they earn enough to pay income tax. The Order provides for the automatic enrolment and re-enrolment earnings trigger to be revised to align with the income tax personal allowance for the tax year 2014/15.

7.4 He has also concluded that private pension saving should build on the foundation of state pension entitlement. Under current rules state pension entitlement accrues from earnings at the National Insurance contributions lower earnings limit. The Secretary of State has, therefore, decided to use the National Insurance contributions lower earnings limit as the most relevant point to begin private savings for retirement. So the Order provides for the lower limit of the qualifying earnings band to be aligned with the lower earnings limit for 2014/15.

7.5 The Secretary of State 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**

7.6 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](http://www.legislation.gov.uk). An explanation as to which instruments are maintained on each site is available here (<http://www.dwp.gov.uk/docs/lawvolnews.pdf>).

8. Consultation outcome

Formal consultation was carried out for the first two Review Orders. The Department considers that, in relation to this third Review Order, consultation is not required because it follows exactly the methods used in making the 2012 and 2013 Orders.

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 as a Departmental Ad Hoc statistical release on: <https://gov.uk/government/publications/review-of-the-automatic-enrolment-earnings-trigger-and-qualifying-earnings-band-for-201415>.

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. However, implementation is staged and smaller employers do not become subject to the automatic enrolment duty until 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 Jane Stewart at the Department for Work and Pensions Telephone number: 020 7449 7230 or e-mail: jane.stewart4@dwp.gsi.gov.uk