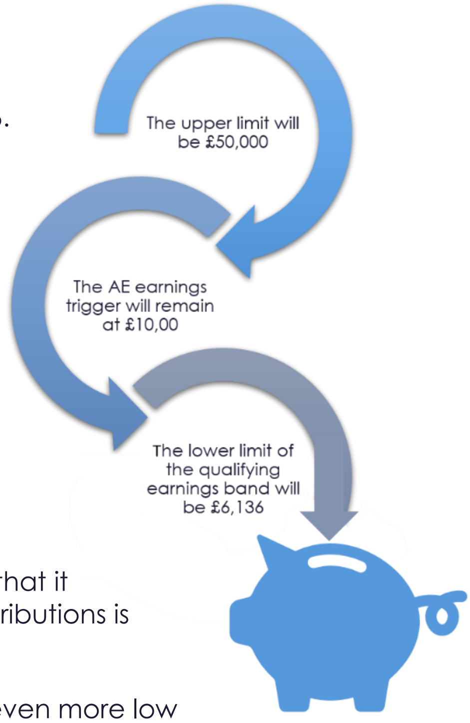
## *In a nutshell – Automatic Enrolment Thresholds*

### The Review document announced that for 2019/20:

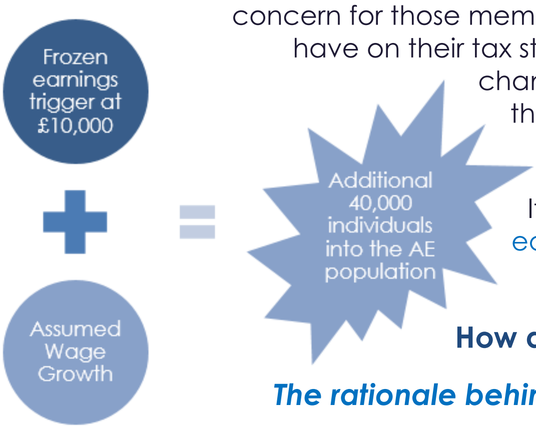
- - The AE earnings trigger will remain at £10,000.
- - The lower limit of the qualifying earnings band will be £6,136.
- - The upper limit will be £50,000.
- - For the sixth year running there is to be no change to the earnings trigger nor to the qualifying earnings band's link to National Insurance contribution thresholds.




### So what does this mean for the public and members? And what can we expect in future?

The freezing of the earnings trigger, which is undoubtedly the most controversial choice, will widen the gap which was first created in 2015/16 between the personal allowance and the trigger. It represents a further real term decrease in value of the trigger, when combined with assumed wage growth, and will bring an additional 40,000 individuals into the AE target population. The Review asserts that it reflects the need for stability as the second phased increase to contributions is due to take place at the start of the 2019/20 tax year.

However, the real takeaway for members is that it also means that even more low earners who pay no income tax - in 2018/19 those earning less than £12,500 pa - will be auto-enrolled into net pay arrangements and receive no tax relief on their pension contributions, simply because of the type of arrangement their employer has selected for them. Though this caused controversy when announced, it seems to have fallen from public eye somewhat, and there remains concern for those members who are unaware of the impact these changes could have on their tax status. Whilst this was an unintended result of the threshold changes the government has, as yet, not taken steps to correct this loophole, and there is a growing fear that this could also lead to higher opt out rates from April 2019.




It remains the Government's ambition to remove the lower earnings limit, targeting "the mid-2020's".

### How are these thresholds calculated?

***The rationale behind this is worth quoting in full from the Review document:***

"The first two annual reviews established three principles to be used when reviewing the automatic enrolment thresholds. These principles were endorsed by stakeholders and the government's view is that they remain relevant:

1. Will the right people be brought in to pension saving? In particular, at what level will the earnings trigger bring in as many people as possible who will benefit from saving? At what level does the trigger need to be set to avoid the automatic enrolment of those who are unlikely to benefit from saving? And what are the equality implications of the different options?

2. What is the appropriate minimum level of saving for people who are automatically enrolled? Everyone who is automatically enrolled should pay contributions on a meaningful portion of their income. To ensure this, we need to maintain an appropriate gap between the lower limit of the qualifying earnings band and the earnings trigger.

3. Are the costs and benefits to individuals and employers appropriately balanced? The cost implications of the thresholds remain relevant and we need to factor in the continuing importance of simplicity. Alignment as far as possible with recognisable tax and National Insurance Contributions thresholds simplifies system builds, provides compatibility with existing payroll systems and makes automatic enrolment simpler to administer and explain."

## About Aries Insight

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