

New earnings thresholds for auto-enrolment

In early December the Department for Work and Pensions (DWP) announced the thresholds that should apply to automatic enrolment pension contributions from 6 April 2019. We say 'should' because, strictly speaking, they need final approval from the Secretary of State, although any change is extremely unlikely.

There are three key levels to be aware of:

- **The Earnings Threshold** This is the trigger level of earnings which brings a 'worker' into automatic enrolment. It used to match the personal allowance, but since 2015/16 has been frozen at £10,000. That round number will stay in place for the coming tax year.
- **The Qualifying Earnings Lower Limit** This is the floor level of earnings above which contributions are payable, but only if the earnings threshold is triggered. It matches the lower earnings limit, which is a key level for social security benefit entitlement and will be £6,136 (£118 a week) in 2019/20, an increase of £104 (£2 a week)
- **The Qualifying Earnings Upper Limit** This is the upper level of earnings on which contributions are payable. In past years it has matched the UK higher rate threshold. The same will be true for 2019/20, despite the £3,650 increase in that threshold to £50,000. This is not good news for Scottish taxpayers, whose own higher rate (41%, not 40%) threshold for earned income is set to be £43,430 in 2019/20.

Increasing contribution rates

These numbers take on more significance for 2019/20, as the minimum total auto-enrolment pension contribution rate will increase from 5% to 8% of qualifying earnings. Of the 8%, the minimum payable by the employer will be 3%, meaning many employees will see their contribution rate jump from 3% to 5% – a two thirds rise.

If you are an employee in an auto-enrolment pension scheme, then you could well find that April's increase in your pension contributions will more than counter the benefits of the income tax cuts which occur at the same time. If you are an employer, you may want to warn your employees of the forthcoming changes.

The 8% contribution level will mark the end of current round of planned increases for auto-enrolment. However, the general consensus is that 8% is too low to achieve a decent retirement income. To explore what level of contribution is appropriate in your circumstances, please get in touch.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.