

<b>Title:</b> The Employers' Duties (Implementation) (Amendment) Regulations 2012 <b>IA No: DWP0027</b>  <b>Lead department or agency:</b>  Department for Work and Pensions  <b>Other departments or agencies:</b> n/a	<b>Impact Assessment (IA)</b>					
	<b>Date:</b> 04/07/2012					
	<b>Stage:</b> Final					
	<b>Source of intervention:</b> Domestic					
	<b>Type of measure:</b> Secondary legislation					
Contact for enquiries: Jo Semmence: 020 7449 7226						
<b>Summary: Intervention and Options</b>					RPC Opinion: Green	

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£140m	£3,121m (saving)	£137m (saving)	YES   OUT

**What is the problem under consideration? Why is government intervention necessary?**

A range of legislation has already been introduced to support the government's strategy to tackle the dual problems of increasing longevity and widespread under-saving for retirement. This includes the Pensions Acts of 2008 and 2011. This impact assessment addresses further regulations of the workplace pension reform programme which amend the existing arrangements for implementation of the reforms to ensure that no employer with fewer than 50 workers is brought into scope during this Parliament. This follows an announcement, to this effect, made by the government on 28 November 2011.

**What are the policy objectives and the intended effects?**

The over-arching objective of the reforms is to reverse the culture of under-saving and enable individuals to take greater responsibility for retirement, whilst balancing this with the additional burden placed on employers who are required to contribute to individuals' pension saving. The key proposal discussed in this Impact Assessment is intended to ensure that no employer with fewer than 50 workers is placed under additional financial burden during this Parliament. The earliest date that a small or micro employer will now be required to participate in the reforms is June 2015. This will provide an easement to small and micro employers. The Government also propose to delay the increase in the minimum rate of employer pension contributions. This will provide a further easement to business of the reforms.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

Available options were constrained by having to provide a balance between ensuring that the reforms are introduced smoothly, allowing a predictable ramp up of employer and employee numbers over time, and getting individuals into pension saving as quickly as possible. The largest employers needed to be given an assurance that there would be no change in the timetable for them as their plans would already be advanced. Further, the Pensions Regulator's test tranche for small and micro employers had to be suitably positioned to ensure there was sufficient time to evaluate the findings in advance of the main staging of small and micro firms. The option chosen is considered to strike the right balance and is agreed between the Department for Work and Pensions and its delivery partners. The current implementation period is extended to February 2018. This means that some employers will experience a delay of around a year compared with the date they would be required to comply under the existing implementation arrangements. A small number of employers will experience a delay of 18 months. The extension of the implementation period also has implications for the phasing of contributions. The government has decided that the increase in minimum employer contributions from 1% to 2% will now occur from 1 October 2017 – one year later than under previous arrangements.

<b>Will the policy be reviewed?</b> It will be reviewed. <b>If applicable, set review date:</b> 2017					
<b>Does implementation go beyond minimum EU requirements?</b>					N/A
<b>Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.</b>	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes

<b>What is the CO<sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO<sub>2</sub> equivalent)</b>	<b>Traded:</b> N/A	<b>Non-traded:</b> N/A
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*I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.*

**Signed by the responsible Minister:**

 Date: 04/07/12

# Summary: Analysis and Evidence

## Description: Making automatic enrolment work

Price Base Year 2011	PV Base Year 2011	Time Period Years 39	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: 140

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	262	8,356

### Description and scale of key monetised costs by 'main affected groups'

The costs shown here are the average annual costs between 2012 and 2050 in present (2011/12) prices. Transfers: (Annual averages are presented in Table 0.1)  
Employer contributions: £93 million; Individual contributions: £130 million; Government (tax relief): £38 million

### Other key non-monetised costs by 'main affected groups'

The reduction in the amount saved has a small impact on the value of consumption smoothing. The present value of this impact falls between losses of £2 billion (5 per cent) and £3 billion (5 per cent) from a baseline of £35 billion to £60 billion in 2050.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	266	8,496

### Description and scale of key monetised benefits by 'main affected groups'

The benefits shown here are the average annual savings between 2012 and 2050 in present (2011/12) prices.  
Transfers (Lower costs): Employer contributions: £93 million; Individual contributions: £130 million; Government (tax relief): £38 million.

Resource Benefits: Lower Employer administrative costs: £4 million.

### Other key non-monetised benefits by 'main affected groups'

**Key assumptions/sensitivities/risks** **Discount rate** 3.5

The analysis is based on the latest assumptions about the employer and pensions landscape from 2012 (see Annex B). The success of these reforms is sensitive to the behaviour of individuals and employers: individual participation rates, employer choice of qualifying scheme and employer pension contributions following reform, and mechanisms for dealing with the costs of the reforms.

Costs and benefits have been expressed in constant price terms using the GDP deflator (2.5% long term). Green Book guidance has been followed for macro assumptions about the long term discount rate falling to 3 per cent after 30 years. Long term earnings growth is assumed to be 4.75% in nominal terms.

<b>Direct impact on business (Equivalent Annual) £m):</b> Costs: 0	Benefits: 143	Net: 143 (see Table 0.4)	<b>In scope of</b> YES	<b>Measure qualifies</b> OUT
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# Evidence Base for summary sheets

## References

Include the links to relevant legislation and publications, such as public impact assessments of earlier stages (e.g. Consultation, Final, Enactment) and those of the matching IN or Outs measures.

### **No.      Legislation or publication**

- 1      Pensions Act Impact Assessment – April 2008  
<http://www.dwp.gov.uk/docs/impact-assessment-240408.pdf>
- 2      Impact Assessment:(Automatic Enrolment) Regulations – March 2009 (consultation stage)  
<http://www.dwp.gov.uk/docs/pension-auto-enrol-imp-assess.pdf>
- 3      Impact Assessment: Workplace Pension Reform (Completing the Picture) Regulations 2009 (consultation stage)  
<http://www.dwp.gov.uk/docs/workplace-pension-reform-ia-sept09.pdf>
- 4      Workplace Pension Reform Regulations: Impact Assessment – January 2010  
<http://www.dwp.gov.uk/docs/wpr-ia.pdf>
- 5      Making Automatic Enrolment Work Review – October 2010  
<http://www.dwp.gov.uk/docs/cp-oct10-full-document.pdf>
- 6      Pensions Act 2011: Workplace Pension Reform Impact Assessment – January 2011  
<http://www.dwp.gov.uk/docs/pensions-bill-2011-ia-annexb.pdf>
- 7      Workplace Pension Reform: seafarers, offshore workers; and removing the stakeholder designation requirement – Consultation stage Impact Assessment – submitted to the Regulatory Policy Committee (RPC) in April 2011. DWP0005
- 8      Workplace Pension Reform: waiting period notice – Consultation stage Impact Assessment – submitted to the RPC in May 2011. DWP0020
- 9      Workplace Pension Reform – Completing the legislative framework for Automatic Enrolment. Consultation on draft regulations. July 2011  
<http://www.dwp.gov.uk/docs/workplace-pension-reform-consult.pdf>
- 10     Workplace Pension Reform – Secondary Legislation 2012  
<http://www.dwp.gov.uk/docs/ia-workplace-pension-reform-final-stage.pdf>
- 11     Workplace Pension Reform – revised implementation schedule – Consultation stage Impact Assessment – submitted to the RPC in February 2012. DWP0027

# Annual profile of monetised costs and benefits

The annual profile of monetised costs and benefits for each year between 2012 and 2050 is available on request.

## Explanation of costs and benefits

This Impact Assessment summarises the costs and benefits of the proposed changes to the implementation period (2012/13 to 2019/20) of the workplace pension reforms when compared with the approach to implementation that was set out in the Pensions Act of 2008 and assessed in the supporting impact assessment of 2010.

The tables in this section show the cost and benefits arising from the change to the staging of firms and phasing of contributions up to 2019/20. The total economic costs and benefits of the workplace pension reforms under this proposed implementation approach are presented in Annex A for specific points in time up to 2050.

The tables below present the average annual changes over the 39 years to 2050, followed by the one off transitional cost and then the ongoing cost in 2012. Changes every ten years are shown from 2020 to 2050. The 39 year time period is consistent with the methodology used in previous impact assessments relating to the workplace pension reform regulations.

There is no impact on the ongoing costs and benefits in 2012 as the proposed changes to the implementation approach do not start until 2014/15. Further, there is no impact on the costs and benefits beyond steady state (when all firms are staged and contributions are fully phased in, from 2019/20).

Figures presented in this evidence base are consistent with Better Regulation Executive guidance. Costs are in 2011/12 prices terms which means that future price inflation has been taken into account. Present values are discounted to take into account the social discount rate (3.5 per cent falling to 3 per cent after 30 years) as set out in HM Treasury's Green Book.

## New information since consultation stage Impact Assessment

The analysis is based on the latest evidence about the employer and pensions landscape, which suggests that there are around 1 million fewer workers currently saving in a qualifying workplace pension scheme and around 150,000 fewer micro employers (those with less than 5 workers) than was assumed in the consultation stage Impact Assessment (see Annex B for details). The reduction in the number of workers currently saving has the effect of increasing the baseline costs and benefits of the overarching workplace pension reforms, which increases the scope for costs and benefits associated with the revised implementation schedule. The reduction in the number of micro employers reduces their share of the savings for employers (in terms of reduced pension contributions) associated with the revised implementation schedule (see Table 2.2).

Costs and benefits have been expressed in constant price terms using the GDP deflator (2.5% long term) rather than the Consumer Prices Index (2% long term) as was assumed in the consultation stage Impact Assessment. This was to improve consistency with other impact assessments on pensions. This change mainly affects the baseline costs and benefits of the overarching workplace

pension reforms in the long run (see Table A1.1 in Annex A) relative to the analysis in the consultation stage Impact Assessment. There is little effect on the costs and benefits of the change to the implementation schedule as these are restricted to the short run 2012/13 – 2019/20 period.

Tables in this section present net benefits: a cost is a negative number and a benefit is a positive number.

Therefore:

- A decrease from the baseline in individual contribution costs is shown as a positive number.
- A decrease from the baseline in government expenditure on individual tax relief benefits is shown as a positive number.
- A decrease from the baseline in overall savings into private pensions is shown as a negative number.

## Income transfers

The proposed change to the implementation approach outlined in this impact assessment results in transfers of income between employers, individuals and the Exchequer, as well as transfers of income across people’s lives. Table 0.1 shows the impact of the proposed change to the implementation approach on income transfers for specific points in time through to 2050.

The effect of the change is to decrease pension contributions from employers, individuals and the Exchequer (in the form of tax relief). This results in employer savings from reduced pension contribution costs and reduced benefits for individuals from lower levels of pension savings during the implementation period.

**Table 0.1: Estimated transfer costs and benefits arising from changes to workplace pension reform measures (£ million)**

	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
<b>Individuals</b>							
a) Contribution costs	130	0	0	0	0	0	0
b) Receipt of income related benefits	0	0	0	0	0	0	0
c) Savings into private pensions	-262	0	0	0	0	0	0
<b>Net benefit</b>	<b>-132</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Employers</b>							
d) Contribution costs	93	0	0	0	0	0	0
<b>Net benefit</b>	<b>93</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Government</b>							
e) Contribution costs (income tax relief)	38	0	0	0	0	0	0
f) Income related benefit expenditure	0	0	0	0	0	0	0
<b>Net benefit</b>	<b>38</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>							
<b>Net Benefit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Notes:

- Figures are expressed in 2011/12 price terms; present values are 2011/12 based.
- Costs shown include increases in earnings over and above price inflation.
- Figures are rounded to the nearest £1 million.
- The employer costs presented here are the sum of employer contributions and any tax relief available on those contributions.
- Costs are presented as negative numbers, benefits as positive numbers.
- Higher savings into private pension is the sum of tax relief, employer contribution and individual contribution costs.
- There is no impact on the ongoing costs and benefits in 2012 as the proposed changes to the implementation approach do not start until 2014/15. Further, there is no impact on the costs and benefits beyond steady state (when all firms are staged and contributions are fully phased in, from 2019/20).

**a) Individual contribution costs** are the cash contributions made from individuals, i.e. not including tax relief.

**b) Receipt of income-related benefits** reflects the change in entitlement to income-related benefits in retirement caused by the fall in private pension saving.

**c) Savings into private pensions** are the sum of individual and employer contributions plus government tax relief. These estimates relate to the additional contributions made into pensions and not the private pension incomes individuals will receive as a result of this saving.

**d) Employer contribution costs** are the cash contributions made by employers if employers were to make the minimum employer contribution of three per cent for all eligible jobholders who do not opt out.

**e) Government contribution costs (tax relief)** reflect the change to the costs to the Exchequer of tax relief on individuals' pension contributions.

**f) Income-related benefit expenditure** reflects the change in **expenditure** in income-related benefits described above.

## Reductions in resource costs

Employers also benefit from reduced administration costs over the implementation period due to the deferral in the staging date for small and micro firms. Table 0.2 outlines the impact of the proposed changes to resource costs of the workplace pension reforms. The net effect is an administrative annual saving to business of £4 million on average (in 2011/12 price terms) over the 39 year period from 2012 to 2050.

**Table 0.2: Estimated resource costs arising from changes to workplace pension reform (£ million)**

	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
g) Employer administrative costs	4	0	0	0	0	0	0
h) Cost of changing scheme rules	0	0	0	0	0	0	0
<b>Net Benefit</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Notes:

- Figures are expressed in 2011/12 price terms; present values are 2011/12 based
- Costs are presented as negative numbers, benefits as positive numbers.
- Costs shown include increases in earnings over and above the rate of inflation
- All figures rounded to the nearest £1 million.

**g) Employer administrative costs** reflects the change in the cost employers incur in administering participation in pension schemes.

**h) Cost of changing scheme rules** relates to the cost of reviewing the rules and making required changes to all open workplace pension schemes in the run up to the reform.

## Non-monetised costs

Automatic enrolment and the associated higher levels of pension saving will enable millions of individuals to transfer income from a period in life when they can afford to consume more (working life) to one where they can typically afford to consume less (retirement). This is sometimes referred to as ‘consumption smoothing’ as it aims to smooth one’s income between work and retirement by deferring consumption from working life to retirement. In other words, when individuals retire they do not experience a big drop in spending power. This represents an increase in value to individuals because the income they have deferred will be worth more to them in retirement than it would have been when they were in work.<sup>1</sup>

The Department for Work and Pensions estimates a social welfare benefit of £35 to £60 billion up to 2050. The proposed changes to the staging of firms and phasing of contributions outlined in this impact assessment have a small impact on the value of consumption smoothing. The present value of this impact falls between losses of £2 billion (5 per cent) and £3 billion (5 per cent).

The evaluation of the social welfare cost is based on a set of assumptions around which there is inherent uncertainty. The range estimates presented here capture the uncertainty related to the estimated number of individuals newly saving or saving more in workplace pension schemes as a result of the reform package. In reality, there are other key assumptions such as contribution levels, earnings growth and the level of investment returns which are also uncertain in the long term. As a result there is considerable uncertainty in the estimate of the social welfare costs due to the revised implementation schedule and because of this it has not been included in the net present value calculation.

<sup>1</sup> For further explanation of the methodology see Annex H of Workplace Pension Reform Regulations: Impact Assessment – January 2010



**Table 0.3: Estimated resource benefits arising from changes to workplace pension reforms (£ billion)**

Social welfare benefits (units of consumption, in billions)	Total cost (present value)	Total benefit (present value)
Phasing	0	loss between £2- £3
Staging	0	negligible
<b>Net Benefit</b>	0	loss between £2- £3

Notes:

- Present values are for the period 2012-2050 and are presented in 2011/12 prices.
- Costs are rounded to the nearest billion.

## Costs and benefits to business for One-in, One-out

Table 0.4 shows the net present value (NPV) benefit to business arising from the proposed change to staging and phasing of the workplace pension reforms described in this impact assessment and the equivalent annual net cost to business (EANCB). This includes the administrative savings associated with preparing for start-up and from automatically enrolling individuals as well as reductions in the cost of employer contributions for those individuals who do not opt out

The NPV to business associated with the extension of staging and phasing is estimated to be a net benefit of £3,121 million over the 39 years from 2012 to 2050. The EANCB is therefore estimated to be a saving in costs of £143 million (£137 million in 2009 prices).

**Table 0.4: Change to the net present value and equivalent annual net cost to business from the proposed change to the implementation of the workplace pension reforms (£ million)**

	Net Present Value (£m)	Equivalent Annual Net Cost (£m)
Saving in contribution costs	2,981	136
Saving in administrative costs	140	6
<b>Net Benefit</b>	<b>3,121</b>	<b>143</b>

Notes:

- Figures are expressed in 2011/12 base year.
- Benefits are presented as positive numbers.

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# Section 1: Overview and summary of costs and benefits

## Background and objectives for reform

- 1.1 The legislative changes set out in the Pensions Act 2008, the workplace pension reform regulations 2010 and the Pensions Act 2011 aim to increase private pension saving in the UK. They form part of a wider pensions reform package designed to ensure that the UK has a pension system that enables individuals to save towards achieving the lifestyle they aspire to in retirement while minimising the burden on employers and industry.
- 1.2 This is the final Impact assessment, and follows the conclusion, on 4<sup>th</sup> May, of the consultation “Reducing Administrative Burden of Automatic Enrolment”. The consultation included reforms that are intended to ensure no employer with fewer than 50 workers will be brought into the reforms during this Parliament, including those employers who share a PAYE scheme with a large or medium employer.

## The need for reform

- 1.3 The Pensions Commission was set up in 2002 to assess how the pension system was developing over time and to make recommendations on whether the pension system should move beyond a purely voluntary approach.
- 1.4 The Commission concluded that whilst pensioner income levels are on average high by historical standards, the existing system of private funded pensions combined with the current state system will deliver increasingly inadequate and unequal results. The report concluded that millions of people are not saving enough to meet their retirement aspirations, with analysis from the Department for Work and Pensions (DWP) putting this figure at around seven million<sup>2</sup>.
- 1.5 There are a number of barriers to saving, even where people recognise that it is in their best interests to do so. Specifically:
  - A limited understanding, amongst many people, of pensions and the benefits of saving for retirement.
  - A tendency to procrastinate. Evidence shows that even where people make commitments to saving, they put off acting on that decision, suggesting hyperbolic (rather than even) discounting of consumption.
  - The power of inertia. People often accept the situation as it is, or choose the course of action which requires least decision making. People who start saving usually keep saving, often at the same contribution rate. People who are not saving usually continue not saving.

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<sup>2</sup> This figure is based on DWP modelling using data from the English Longitudinal Study of Ageing (ELSA) and was published in the May 2006 White Paper, *Security in Retirement: towards a new pension system*.

Pension schemes in which the default option is for new employees to join produce much higher pension participation than if an active decision to join has to be registered.

- Difficulty in accessing pension provision. There is an ongoing decline in the provision of pension schemes offered by employers and relatively poor market provision for many on moderate to low incomes and those who work for small and micro firms.
- 1.6 The Commission explored three solutions to the problem of under saving, namely: a major revitalisation of the voluntary system and/or significant changes to the state system; and/or an increased level of compulsory private pension saving beyond that already implicit within the UK system.
- 1.7 They concluded that the problems are not solvable through changes to the state system alone, nor by incremental measures to encourage voluntary saving. At the same time, compulsion with respect to private pension saving presents risks of forcing some people to over-save, and does not accommodate diversity in people's preferences for different ways to save (e.g. through housing assets).
- 1.8 The Commission recommended a solution whereby the State strongly encourages people to achieve a minimum level of private pension provision, whilst enabling them to save more in a cost efficient way. The suggestion was for a minimum replacement rate<sup>3</sup> of 45 per cent for the median earner. Overall, this means increasing both the number of people saving in pensions and the amounts saved.
- 1.9 To achieve this objective, the Commission recommended:
- The creation of a National Pension Savings Scheme (NPSS).
  - All employees not already covered by a good quality pension scheme should be automatically enrolled into this NPSS.
  - Individual contributions should be matched by modest compulsory employer contributions, to ensure that the scheme offers attractive returns, and to level the playing field between employers who do and do not already offer pension provision.
- 1.10 These recommendations were broadly accepted by the government of the time and commanded a widespread political consensus. Since 2006 the Department has been working to develop the detail of this policy, to put in place the legislative framework to prepare for implementing the proposals in 2012.
- 1.11 The policy set out in the Pensions Act 2008 and associated regulations broadly followed the Pensions Commission's recommendations, as follows:
- Employers will be required to automatically enrol their eligible jobholders into a pension scheme meeting minimum quality requirements.
  - Minimum contributions of eight per cent on a band of earnings must be paid in respect of the member, of which at least three per cent must come from the employer.

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<sup>3</sup> A replacement rate measures income in retirement as a percentage of income before retirement.

- The National Employment Savings Trust (NEST), a trust-based occupational pension scheme is set up with a public service obligation to accept any employer (and qualifying worker) that wishes to use the scheme.

1.12 The Pensions Act 2008 gives the Secretary of State the power to make regulations to set out the detailed procedures under which employers must automatically enrol eligible jobholders into qualifying workplace pension scheme. Regulations were consulted on in 2009, and a set of regulations were laid in Parliament in January 2010, with an accompanying impact assessment. A further impact assessment accompanied the Pensions Act 2011.

1.13 This Impact assessment follows the conclusion, on 4<sup>th</sup> May, of the consultation “Reducing Administrative Burden of Automatic Enrolment”. The consultation included reforms that are intended to ensure no employer with fewer than 50 workers will be brought into the reforms during this Parliament, including those employers who share a PAYE scheme with a large or medium employer.

## Building consensus around the policy

1.14 It is essential that there is a stable and long lasting system of pension saving in the UK, so that decisions taken by savers today are not undermined by changes to the system tomorrow. The government has therefore worked hard to build a broad based consensus among the public, businesses, the pensions industry and across political parties, to ensure that the private pension reforms stand the test of time.

1.15 Following Royal Assent for the Pensions Act 2008, in March 2009 the government consulted on draft regulations covering the automatic enrolment process. In April 2009 they further consulted on the draft scheme order and rules for NEST (then called the “personal accounts scheme”). In September 2009 the government consulted on a second batch of draft regulations, to implement and enforce the reforms. Alongside this written consultation, the Department held a number of seminars to discuss the regulations with a range of stakeholders, and also conducted formal research into employers’ views on the policy details.

1.16 As a result of the March 2009 consultation on draft regulations, significant changes were made to the automatic enrolment process, including: extending the joining window; simplifying timescales and information requirements; amending the 19 day rule<sup>4</sup> in order to minimise burdens associated with refunds. These changes are discussed in detail in the government response to that consultation<sup>5</sup>. No significant changes were made to the scheme order and rules for NEST, since respondents broadly agreed to the proposals.

1.17 A number of relatively minor changes were made in response to the consultation on the second batch of regulations in September 2009. The most significant amendment was removing certification from the regulations, in response to strongly held stakeholder views that

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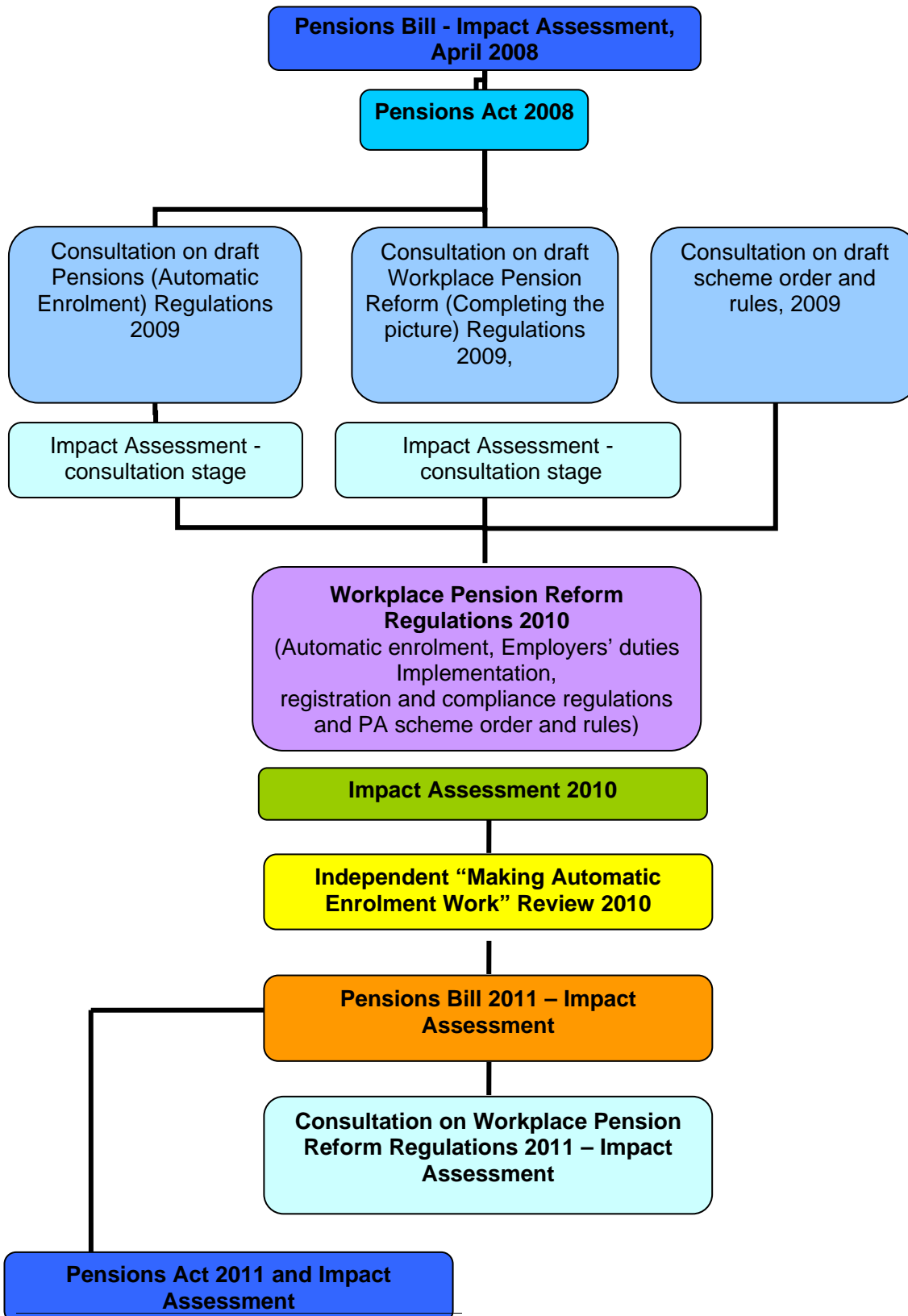
<sup>4</sup> This allows employers to not pay contributions over to the pension scheme for an additional month at the point of automatic enrolment in order to minimise refunds from schemes to employers where an individual chooses to opt out.

<sup>5</sup> DWP, 2009, The Pensions (Automatic Enrolment) Regulations 2009: Government Response to the Consultation on Regulations.

the Department needed to return to the drawing board on this policy in order to ensure it is effective for business.

- 1.18 In autumn 2009 the Department reconsidered the implementation plans for automatic enrolment, in light of changing economic circumstances. The government's key objective was to get the infrastructure in place as quickly as possible, whilst ensuring that the reforms are implemented in an operationally achievable way that is also manageable and sustainable for employers and individuals. The Department therefore adjusted the implementation plan to allow small and micro employers and new businesses more time before being staged into the duties.
- 1.19 In June 2010, the coalition government commissioned an external review to consider whether the proposed scope of automatic enrolment struck the appropriate balance between the costs and benefits to both individuals and employers or whether the underlying policy objective of increasing private pension saving could be better delivered by a different scope for automatic enrolment. The review team received 73 written responses to their formal call for evidence, alongside gathering views at a number of seminars and one to one meetings. The evidence was carefully considered, and the recommendations of the review broadly reflect stakeholders' views.
- 1.20 The independent Making Automatic Enrolment Work review was published in October 2010. It included a number of recommendations intended to reduce the burden of automatic enrolment on business. These recommendations were welcomed by the government and the main key recommendations were introduced in the Pensions Act 2011. The changes included: introducing a higher earnings trigger for automatic enrolment; introducing an optional waiting period of up to three months before the automatic enrolment duty commences; and simplifying the way an employer can certify that their pension scheme meets the necessary quality test.
- 1.21 Between July and October 2011 the government consulted on further additions and amendments to the legislative framework for automatic enrolment which will be introduced through regulations before the reforms are introduced from 2012. These changes include the secondary legislation that is required to complete the implementation of the Making Automatic Enrolment Work recommendations and a series of technical amendments needed to complete the policy framework. The government also sought views on proposals to include seafarers and offshore workers within the scope of automatic enrolment. The Impact assessment accompanying this further set of Workplace Pension Reform regulations relating to the onset of automatic enrolment was laid in Parliament in February 2012.
- 1.22 This impact assessment presents the costs and benefits of the changes to the staging and phasing of the revised implementation proposal which will ensure that no employer with fewer than 50 workers will be brought into automatic enrolment before June 2015.
- 1.23 Figure 1.1 summarises the consultations and documents surrounding the private pension reforms that have been published since the introduction of the Pensions Act 2008.

Figure 1.1: Key workplace pension reform legislation and consultation



**Figure 1.2: Summary of impacts and burdens over the implementation period (2012/13 to 2019/20)**

Changes to Pension Regulation	Impact on Individuals	Impact on Employers	Impact on pensions Industry	Impact on the Exchequer	Regulatory burden on business
	<p>Delays the entry of around 4.75 million individuals into pension saving.</p> <p>Reduces level of pension saving by £10.2 billion.</p>	<p>Reduces costs for employers.</p> <p>Estimated total contribution saving of £3.6 billion and administration saving of around £160 million.</p>	<p>Reduced revenues from the lower level of pension saving generated by automatic enrolment.</p>	<p>Reduces Exchequer costs.</p> <p>Estimated saving of £1.5 billion individual tax relief.</p>	<p>Reduced burden for employers.</p>

Note: Figures in this table are in 2011/12 price terms and refer to the level of reduced costs and benefits over the implementation period. These are not present value based therefore differ from those presented in the summary section of this Impact Assessment.



## **Section 2: Revising the implementation design of the workplace pension reforms**

- 2.1 This section sets out the changes to the legislation in order to ensure that employers with fewer than 50 workers are not brought into the reforms before June 2015 and outlines the impacts for employers, individuals and the Exchequer.

### **Current policy**

- 2.2 During implementation, employers are brought into the duties in a managed way called 'staging'. This staging period currently runs from October 2012 to September 2016. Employers are assigned a staging date, when they must first automatically enrol eligible workers into a qualifying workplace pension scheme. The largest employers are staged first (using PAYE scheme size as a proxy for employer size) through to the smallest. New firms coming into being after October 2012 will be brought into the reforms at the end of the staging period. All large employers (those with at least 250 workers) will receive letters from The Pensions Regulator 18 months, 12 months and then 3 months ahead of their staging date. The letter will tell them when their staging date is and what they must do to comply with their automatic enrolment duties. The Pensions Regulator will publish guidance to help employers understand their duties.

### **Why consider change?**

- 2.3 The government announced, on 28 November 2011, that no employer with fewer than 50 workers would be brought into the reforms during the course of this Parliament. This is to give small businesses more time to prepare for automatic enrolment. These changes put that announcement into effect.

### **Relevant constraints which influenced the solution**

- 2.4 Moving all employers with fewer than 50 workers into the next Parliament has an impact on the implementation profile in this Parliament. First an assurance has already been given to the largest employers (with 3,000 or more workers) with staging dates on or before July 2013, that there would be no change in the timetable for them. The Department then worked with its delivery partners: the Pensions Regulator (tPR) and the National Employment Savings Trust (NEST) - to re-design the profile for those employers with 50 – 2,999 individuals in their PAYE scheme who are currently due to be staged between August 2013 and July 2014. The approach was constrained by having to provide a balance between ensuring that the reforms are introduced smoothly, allowing a predictable ramp up of employer and employee numbers over time, and getting individuals into pension saving as quickly as possible. The Pensions Regulator's test tranche of small and micro employers also had to be suitably positioned within the staging profile to ensure that there would be a period of six months in which to undertake full evaluation of the test tranche findings.

## Agreed Approach

- 2.5 Small and micro employers are not brought into the reforms before June 2015. The period in which employers are brought into the reforms is extended by 18 months from September 2016 to February 2018.
- 2.6 Under the revised profile, all employers with an existing staging date of on or before 1<sup>st</sup> February 2014 will retain their original staging dates. This means that no large employer (those with at least 250 workers) will have to make any changes to their plans – which for many will be advanced. Most medium employers will be re-allocated staging dates between 1 April 2014 and 1 April 2015, meaning that some of these employers will have earlier dates (by one month at most), and most will have later dates than they had under previous arrangements.
- 2.7 The period in which minimum pension contributions are increased is extended by 12-months. Employers minimum contributions will rise from 1 per cent to 2 per cent from October 2017 and to 3 per cent from October 2018.

## Stakeholder views of the policy intent

- 2.8 Stakeholders were pleased that all large employers (those with at least 250 workers) keep their original staging date. Nonetheless, out of 23 responses, the vast majority asked for certainty and for the regulations to be finalised as quickly as possible. Only a few welcomed the delay for small businesses, believing it to strike the right balance between helping them through the economic downturn and getting people into pension saving as soon as possible. Around one third of respondents thought that the delay to phasing of contributions would be detrimental to individuals' savings pots and around one quarter thought that the changes increase complexity and administrative burden for employers.
- 2.9 Other comments ranged from a view that the extended staging timetable would exacerbate market distortion through to there being a failure to consider the longer-term wider effects on the economy. There were also suggestions that it could undermine the success of the reforms, does not help with the aspiration to get individuals into pension saving as quickly as possible and could encourage people to opt-out.
- 2.10 A few stakeholders were concerned about the effect on pension providers' revenue streams and one respondent was totally opposed to the changes.

## Approach to analysing impacts of the change

- 2.11 The baseline costs and benefits of the workplace pension reforms to employers, individuals and the Exchequer are set out in the previous impact assessments of the workplace pension reforms<sup>6,7</sup>. The methodological approach and calculations underlying those estimates are described in detail in those impact assessments and the key annexes outlining the methodology are reproduced in this impact assessment.

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<sup>6</sup> Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011

<sup>7</sup> Workplace Pension Reform Regulations – Impact Assessment, Department for Work and Pensions, January 2010 – Annex C.

- 2.12 This impact assessment presents estimates of the costs and benefits arising from the proposed extension of staging and prolonging of phasing to firms during the implementation period (from 2012 to 2019). The employer contribution and administrative costs and the resulting benefits to individuals in the form of higher pension saving are moved from one financial year to the following financial year in accordance with the revised implementation proposal.
- 2.13 For example, under the current approach a tranche of small firms (those with fewer than 50 workers) was assigned a staging date of March 2014. The test tranche of firms will now be staged into automatic enrolment in June 2015 and will contain employers with less than 30 workers. Therefore the cost associated with automatic enrolment for those firms (and the benefits due to the eligible individuals working in them) are transferred from March 2014 to June 2015. Medium sized firms (those with 50-249 workers) are also affected by the change to the implementation approach: Most medium sized firms are deferred, but some are brought forward one month earlier into automatic enrolment than under the current approach. This was necessary in order to spread all medium employers across the gap in the profile create by removal of all small and micro employers, so ensuring that there is no break in the timetable, and that momentum and confidence in, the reforms is not lost.
- 2.14 The costs and benefits associated with the 12-month extension of the stepped phasing before minimum contributions are established are also transferred in the same way for the large and medium employers.
- 2.15 The proposal to revise staging and phasing has been agreed between the Department for Work and Pensions and its delivery partners: the National Employment Savings Trust (NEST) and the Pensions Regulator (tPR).

## Costs and benefits

- 2.16 This section covers the **changes** in the estimated costs and benefits to employers, workers and the Exchequer from the revision to the implementation design for each year during the implementation period. Annex A shows the transfer costs at baseline and after the changes in implementation proposed here for specific points in time from 2012 to 2050.

## Impact on employers

### Number of firms affected by the change

- 2.17 Under the proposals, a total of 1.3 million firms who have fewer than 50 workers will have their staging date (the date when they are required to automatically enrol their eligible workers) delayed by at least 14 months. This represents a significant easement to small and micro firms as employers will not be required to make contributions for their workers nor to bear the administrative cost associated with automatic enrolment during this time.
- 2.18 Around 30,000 medium sized firms (those with 50-249 workers) are also affected by the proposals. Some firms will be staged in one month early but most will have later dates than under the current approach. All medium sized firms will benefit from the extension to phasing
- 2.19 Firms without a PAYE scheme and new born firms covered by the original proposal will also benefit from being brought into the reforms by around one to two years later.

2.20 Around 6,000 employers (those with at least 250 workers) will benefit from the proposed changes to prolong phasing during the implementation period.

### Employer contribution costs (background)

2.21 The workplace pension reforms require employers to automatically enrol eligible jobholders who are at least 22 years and under state pension age into a qualifying workplace pension scheme and make a minimum contribution of three per cent on a band of qualifying earnings once contributions are fully phased in.

2.22 Employers are staged in by size: from the largest to the smallest. Employers contributions are phased in as follows: employers will pay one per cent of the worker's qualifying earnings until October 2017, followed by a year at two per cent, before moving to three per cent in October 2018.

### Reduction in employer contribution costs

2.23 Table 2.1 shows the estimated total savings that all employers will make in minimum pension contributions under the proposed change. Employers' total contributions costs are reduced by around 20 per cent during the period from 2012/13 to 2019/20 when compared with the current approach. During that period, employers will save an estimated £3.6 billion (in 2011/12 price terms) in total pension contributions.

**Table 2.1: Estimated savings to all employers in minimum pension contributions from 2012/13 to 2019/20 under the proposed implementation approach when compared with the total cost of minimum pension contributions under the current design (£ million)**

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
<b>Baseline cost</b>	-60	-400	-760	-1,040	-2,110	-3,660	-4,490	-4,590	-17,110
<b>Savings</b>	-	-	40	200	1,070	1,580	740	0	3,630
<b>Proportion of total saved</b>	-	-	5%	19%	51%	43%	16%	0%	21%

Notes:

- Source: DWP modelling based on participation estimates described in the Pensions Bill 2011 Impacts – Annex B.
- Costs are presented as negative numbers, benefits as positive numbers.
- Figures are expressed in 2011/12 price terms and may not sum due to rounding.
- Figures are rounded to the nearest £10 million and may not sum due to rounding.

2.24 Significant savings are made in 2016/17 and 2017/18 as small and micro firms benefit from not having to make pension contributions during the period in which their staging date is deferred and large and medium firms benefit from the prolonged phasing meaning that they make lower pension contributions for their workers who remain saving for one year longer. Under the revised implementation proposal the cost to employers from making contributions is estimated to halve in 2016/17 and reduce by 43 per cent in 2017/18. Proportionately smaller savings in employer contributions are estimated in each of the remaining years of the implementation period affected by the change.

### Reduction in employer contribution costs by firm size

2.25 Table 2.2 shows how the £3.6 billion savings from making lower pension contributions are shared among different sized firms during the implementation period.

2.26 The majority of the savings in 2014/15 and 2015/16 are for small and micro firms as their staging date is delayed. In 2014/15 medium sized firms also save due to the proposed changes in staging for these firms. In subsequent years during the implementation period between two and three fifths of the savings are for small and micro firms.

2.27 Around 6,000 large firms (those with at least 250 workers) start to benefit from the extension to the phasing of minimum contributions from 2016/17. This means that large firms will make lower pension contributions during the period in which phasing of contributions is extended. During this time large firms will be making pension contributions on a smaller percentage of their eligible workers' qualifying earnings for a longer period of time.

2.28 Table 2.2 shows that around two fifths of the savings in 2016/17 and at least half the savings in 2017/18 and 2018/19 are for large and medium firms.

**Table 2.2: Estimate of the proportion of the total saving in minimum pension contributions achieved in each year during the revised implementation proposal by firm size when compared with the current approach**

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Firm size	%	%	%	%	%	%	%	%
1 to 4	-	-	13	21	15	11	10	-
5 to 49	-	-	61	74	44	34	31	-
50 to 249	-	-	26	4	13	16	18	-
250 to 499	-	-	-	-	5	6	7	-
500 or more	-	-	-	-	23	32	35	-
All	-	100	100	100	100	100	100	-

- Source: DWP modelling based on participation estimates described in the Pensions Bill 2011 Impacts – Annex B.

### Employer administrative costs (background)

2.29 The employer administrative costs take into account the range of new activities employers will need to perform to fulfil their legal obligations. These can be categorised into four high level groups which capture the processes required: preparing for start-up; registration; enrolment and collection and administration.

### Reduction in employer administrative costs

2.30 Table 2.3 shows the estimated savings employers will make in the cost of administering automatic enrolment during the implementation period. The total cost of administering the

workplace pension reforms is estimated to fall by £160 million (in 2011/12 price terms) between 2012/13 and 2019/20.

2.31 There is a significant increase in the administrative cost in 2017/18 under the proposed implementation approach when compared with the current design. This is because the year one administrative costs for those firms whose staging date is deferred from 2016/17 to 2017/18 now fall approximately one year later - in 2017/18. Under the current implementation approach, none of the start-up costs fall in 2017/18 as all firms would have been staged in by October 2016.

**Table 2.3: Estimated total savings to all employers in administering the reforms from 2012/13 to 2019/20 under the proposed implementation approach when compared with the total administrative cost under the current design (£ million)**

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
<b>Baseline cost</b>	<b>-30</b>	<b>-60</b>	<b>-100</b>	<b>-190</b>	<b>-220</b>	<b>-160</b>	<b>-160</b>	<b>-170</b>	<b>-1,090</b>
<b>Savings</b>	<b>-</b>	<b>-</b>	<b>40</b>	<b>130</b>	<b>80</b>	<b>-90</b>	<b>-</b>	<b>-</b>	<b>160</b>
<b>Proportion of total saved</b>	<b>-</b>	<b>-</b>	<b>40%</b>	<b>68%</b>	<b>36%</b>	<b>-56%</b>	<b>-</b>	<b>-</b>	<b>15%</b>

Notes:

- Source: DWP modelling based on participation estimates described in the Pensions Bill 2011 Impacts – Annex B.
- Costs are presented as negative numbers, benefits as positive numbers.
- Figures are expressed in 2011/12 price terms and may not sum due to rounding.
- Figures are rounded to the nearest £10 million and may not sum due to rounding.

2.32 All the estimated savings in reduced administrative costs fall to the small and micro firms whose staging date is deferred.

### Changing the scheme rules

2.33 The administrative cost to employers will depend on how they choose to fulfil their duties. Those employers who choose to amend the rules of their existing scheme will have lower administrative costs than those setting up a new scheme because they will benefit from pre-existing systems and will have experience in dealing with pension contributions.

2.34 Before an existing occupational pension scheme can be used for automatic enrolment, the trustees and sponsoring employer will need to review the current scheme rules to determine whether the qualifying criteria are met. If the scheme does not meet the qualifying criteria, the trustees and employer will need to agree to change the scheme rules or to automatically enrol their eligible workers into an alternative qualifying scheme.

2.35 The cost of reviewing the rules and making the required changes to all open occupation schemes for all members was estimated to be £68 million (in 2011/12 price terms) in the run up to the reforms<sup>8</sup>.

<sup>8</sup> Workplace Pension Reform Regulations – Impact Assessment, Department for Work and Pensions, January 2010 – Annex C.

2.36 The proposed change in the implementation approach is estimated to have little/no impact on the aggregate cost of changing the scheme rules. This is because less than ten per cent of small and micro employers offer an occupation pension scheme<sup>9</sup>.

2.37 The cost associated with changing the scheme rules is a subset of the administration costs associated with automatic enrolment.

### **Summary of employer savings**

2.38 In summary, the total annual saving to business from the proposals to extend staging and phasing is estimated to be £3.8 billion (in 2011/12 terms) for all employers (see Table 2.10). This includes both administration and contribution cost savings. The proposed changes are estimated to save a total of £2.0 billion (in 2011/12 terms) for all small and micro employers.

## **Impact on individuals**

### **Pension saving (background)**

2.39 There are estimated to be eleven million people eligible for automatic enrolment who are not currently saving in a workplace pension scheme with an employer contribution of at least three per cent<sup>10</sup>. Under the workplace pension reforms, those that remain saving receive a total minimum contribution of eight per cent on a band of qualifying earnings once contributions are fully phased in (of which a minimum of three per cent would come from the employer and one per cent from the government in the form of tax relief).

2.40 Individuals will be affected by the proposed changes to both staging (which means that some individuals will join automatic enrolment later) and the extension of phasing (which means that individuals will receive a lower total pension contribution in the short-term, before minimum contributions are established in 2019/20).

### **Number of individuals affected by the change and how they are affected**

#### **Those working in small and micro firms**

2.41 Around 4.75 million eligible individuals working for small and micro firms will be eligible for automatic enrolment approximately one year later under the proposals to ensure that no small or micro firm is subject to the automatic enrolment duty before June 2015. After accounting for opt out, around 3.4 million individuals working for a small or micro firm will join pension saving approximately one year later.

2.42 These individuals would lose out on a total contribution of eight per cent of qualifying earnings over the implementation period for small and micro firms (from June 2015 to February 2018). For example, an eligible individual working for a small or micro firm on average earnings of around £21,000 per year would lose around £1,200 from their pension pot during this period (including £450 from the employer and £150 in tax relief).

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<sup>9</sup> Forth, J and Stokes, L. Employer's Pension Provision Survey 2009, Research Report No 687, Department for Work and Pensions.

<sup>10</sup> See Annex B for a description of the latest participation estimates.

### Those working in medium sized firms

2.43 Around 1.8 million eligible individuals work for medium sized firms (those with 50-249 workers). All these individuals are affected by the change to the staging dates of medium sized firms.

### Those working in large firms

2.44 Around 4.4 million eligible individuals work for a large firm (those with at least 250 workers). The extension to phasing will mean that these individuals receive lower pension contributions for the period in which phasing is prolonged. More specifically, these individuals would lose out on a total contribution of six per cent of qualifying earnings during this time. Both steps of phasing are delayed by one year therefore individuals will receive a total contribution of two per cent instead of five per cent for one year longer and the subsequent delay to the second step of phasing means that individuals will receive a total contribution of five per cent instead of eight per cent for one year longer.

2.45 For example, an eligible individual working for a large firm on average earnings of around £25,000 per year would lose around £1,200 from their pension pot in total during this period.

### Reduction in higher savings into pensions

2.46 Table 2.4 shows the reduction in the total level of pension savings arising from automatic enrolment for each year during the revised implementation period. The proposed changes are estimated to result in a total reduction in pension saving of £10.2 billion (in 2011/12 price terms) between 2012/13 and 2019/20 from automatic enrolment. This represents a drop of around one-quarter, during the period from 2012/13 to 2019/20, in the level of higher pension saving achieved among all eligible individuals when compared with the current approach. The level of pension saving reflects the sum of individual and employer contributions plus government tax relief.

**Table 2.4: Estimated total reduction in higher pension saving from 2012/13 to 2019/20 under the proposed implementation approach when compared with the level of higher pension savings expected under the current design (£ million)**

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
<b>Pension Saving</b>	<b>130</b>	<b>800</b>	<b>1,510</b>	<b>2,080</b>	<b>4,920</b>	<b>9,500</b>	<b>11,950</b>	<b>12,210</b>	<b>43,100</b>
<b>Change in savings</b>	-	-	-80	-410	-2,860	-4,630	-2,230	-	-10,210
<b>Proportion of total lost</b>	-	-	5%	20%	58%	49%	19%	-	24%

#### Notes:

- Source: DWP modelling based on participation estimates described in the Pensions Bill 2011 Impacts – Annex B.
- Costs are presented as negative numbers, benefits as positive numbers.
- Figures are expressed in 2011/12 price terms and may not sum due to rounding.
- Figures are rounded to the nearest £10 million and may not sum due to rounding.

### Income related benefits

2.47 The proposed changes to the implementation of the workplace pension reforms have a negligible impact on the level of income related benefits received in retirement. For example,



the proposed changes are estimated to increase the amount of income-related benefit for the average low earner by 2 pence per week in retirement.

## Social welfare

2.48 There is a small reduction (of 5 per cent) in the value of the welfare gain to society through an increase in the number of people enjoying increased well-being over their lifetime as a result of transferring income from a period when their income is relatively high (when working) to a period in which their income would otherwise be lower (in retirement).

## Consultation response

2.49 DWP received one response to the consultation that offered alternative estimates of the scale of the impacts on individuals' pension saving. After adjusting for differences in opt-out assumptions, these estimates were in line with those presented in this impact assessment.

## Impact on the pensions industry

2.50 The pensions industry is estimated have lower revenues in the short-term as a result of the estimated £10.2 billion reduction in the level of pension savings arising from automatic enrolment during the implementation period (2012/13 to 2019/20).

## Impact on Exchequer

### Exchequer costs (tax relief)

2.51 Individuals receive tax relief on pension contributions<sup>11</sup>. The proposed implementation approach reduces the amount of total pension contributions during the implementation period. Consequently, the amount of tax relief granted in that same period will also reduce. The proposals are estimated to save the Exchequer a total of £1.5 billion (in 2011/12 price terms) between 2012/13 and 2019/20 in reduced income tax relief.

2.52 Table 2.5 shows that the largest savings fall in 2016/17 and 2017/18. Government spending on individual tax relief arising from automatic enrolment is forecast to fall by around two-thirds in 2016/17 and by at least half in 2017/18.

**Table 2.5: Estimated savings to the Exchequer in reduced expenditure on income tax relief for individuals from 2012/13 to 2019/20 under the proposed implementation approach when compared with the total cost of income tax relief under the current design**

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
<b>Baseline cost</b>	-10	-90	-170	-240	-640	-1,330	-1,700	-1,730	-5,910
<b>Savings</b>	-	-	10	50	410	690	340	-	1,500
<b>Proportion of total saved</b>	-	-	6%	21%	64%	52%	20%	-	25%

Notes:

<sup>11</sup> Individuals also receive tax relief on pension fund investment returns, but the impact of this is not considered here.

- Source: DWP modelling based on participation estimates described in the Pensions Bill 2011 Impacts – Annex B.
- Costs are presented as negative numbers, benefits as positive numbers.
- Figures are expressed in 2011/12 price terms and may not sum due to rounding.
- Figures are rounded to the nearest £10 million where appropriate and may not sum due to rounding.

### Exchequer costs (tax foregone)

2.53 The Exchequer will also make savings from a lower level of tax foregone due to automatic enrolment. The level of tax foregone is affected by the level of employer contributions under automatic enrolment and by how employers manage the additional cost of these contributions. If employers absorb costs through profits then there will be a reduction in corporation tax paid. If employers absorb costs through reduced wage growth, the Exchequer will forego employee income tax and National Insurance contributions from both employer and employee. If employers absorb costs by increasing prices, there is no direct impact on their tax bill.

2.54 DWP research provides us with estimates of the proportion of employers who will absorb the costs through profits and the proportion of employers who will absorb the costs through wages. Using this evidence and the appropriate tax rates, automatic enrolment is forecast to cost the Exchequer a total of £4.25 billion (in 2011/12 price terms) between 2012/13 and 2019/20 in tax foregone. The proposed implementation approach is estimated to save the Exchequer a total of £0.9 billion (in 2011/12 price terms) between 2012/13 and 2019/20 in a lower level of tax foregone.<sup>12</sup>

2.55 Table 2.6 shows that the largest savings occur in 2016/17 and 2017/18. The cost to the Exchequer from automatic enrolment in the form of tax foregone is forecast to fall by around a half in 2016/17 and two fifths in 2017/18.

**Table 2.6: Estimated savings to the Exchequer in a lower level of tax foregone from 2012/13 to 2019/20 under the proposed implementation approach when compared with the total Exchequer spending under the current design (£ million)**

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
<b>Baseline cost</b>	-20	-100	-190	-260	-520	-910	-1110	-1140	-4,250
<b>Savings</b>	-	-	10	50	270	390	180	-	900
<b>Proportion of total saved</b>	-	-	5%	19%	52%	43%	16%	-	21%

Notes:

- Source: DWP modelling based on participation estimates described in the Pensions Bill 2011 Impacts – Annex B.
- Costs are presented as negative numbers, benefits as positive numbers.
- Figures are expressed in 2011/12 price terms and may not sum due to rounding.
- Figures are rounded to the nearest £10 million where appropriate and may not sum due to rounding.

<sup>12</sup> For further information on assumptions see Workplace Pension Reform Regulations: Impact Assessment – January 2010 (p.102)

## Savings to Exchequer expenditure

2.56 The additional saving to the Exchequer is estimated to be around £2.4 billion (in 2011/12 price terms) between 2012/13 and 2019/20. This is the sum of reduced expenditure on income tax relief (£1.5 billion) and lower levels of tax foregone (£0.9 billion).

2.57 Table 2.7 shows that the largest savings in exchequer expenditure fall in 2016/17 and 2017/18.

**Table 2.7: Estimated savings to the Exchequer from 2012/13 to 2019/20 under the proposed implementation approach when compared with the total Exchequer spending under the current design (£ million)**

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
<b>Baseline cost</b>	-30	-190	-360	-490	-1160	-2240	-2810	-2870	-10,150
<b>Savings</b>	-	-	20	100	670	1,090	520	-	2,400
<b>Proportion of total saved</b>	-	-	6%	20%	58%	49%	19%	-	24%

### Notes:

- Source: DWP modelling based on participation estimates described in the Pensions Bill 2011 Impacts – Annex B.
- Costs are presented as negative numbers, benefits as positive numbers.
- Figures are expressed in 2011/12 price terms and may not sum due to rounding.
- Figures are rounded to the nearest £10 million and may not sum due to rounding.

## Summary of costs and benefits

2.58 The proposed implementation approach provides a balance between ensuring that the reforms are introduced smoothly, allowing a predictable ramp up of employer and employee numbers over time, and getting individuals into pension saving as quickly as possible.

2.59 Table 2.8 shows the transfer costs and benefits of the proposed changes to staging of employers and phasing of minimum pension contributions. Employers save an estimated £93 million on average each year in pension contribution costs and the government save an estimated £38 million on average each year in individual tax relief. Individuals will not make pension contributions of £130 million on average and will lose out on £262 million on average through lower pension saving.

2.60 There is a small reduction in the value of the welfare gain to society through an increase in the number of people enjoying increased well-being over their lifetime as a result of transferring income from a period when their income is relatively high (when working) to a period in which their income would otherwise be lower (in retirement).

**Table 2.8: Estimated transfer costs and benefits arising from changes to workplace pension reform measures (£ million)**

	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
<b>Individuals</b>							
a) Contribution costs	130	0	0	0	0	0	0
b) Receipt of income related benefits	0	0	0	0	0	0	0
c) Savings into private pensions	-262	0	0	0	0	0	0
<b>Net benefit</b>	<b>-132</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Employers</b>							
d) Contribution costs	93	0	0	0	0	0	0
<b>Net benefit</b>	<b>93</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Government</b>							
e) Contribution costs (income tax relief)	38	0	0	0	0	0	0
f) Income related benefit expenditure	0	0	0	0	0	0	0
<b>Net benefit</b>	<b>38</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>							
<b>Net Benefit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Notes:

- Figures are expressed in 2011/12 price terms; present values are 2011/12 based.
- Costs shown include increases in earnings over and above price inflation.
- Figures are rounded to the nearest £1 million.
- The employer costs presented here are the sum of employer contributions and any tax relief available on those contributions.
- Costs are presented as negative numbers, benefits as positive numbers.
- Higher savings into private pension is the sum of tax relief, employer contribution and individual contribution costs.
- There is no impact on the ongoing costs and benefits in 2012 as the proposed changes to the implementation approach do not start until 2014/15. Further, there is no impact on the costs and benefits beyond steady state (when all firms are staged and contributions are fully phased in, from 2019/20).

2.61 Table 2.9 shows a resource saving to employers of around £4 million on average each year.

**Table 2.9: Estimated resource costs arising from changes to workplace pension reform (£ million)**

	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
g) Employer administrative costs	4	0	0	0	0	0	0
h) Cost of changing scheme rules	0	0	0	0	0	0	0
<b>Net Benefit</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Notes:

- Figures are expressed in 2011/12 price terms; present values are 2011/12 based
- Costs are presented as negative numbers, benefits as positive numbers.
- Costs shown include increases in earnings over and above the rate of inflation
- All figures rounded to the nearest £1 million.

**Cost to business for One in, One-out**

2.62 The savings to business arising from the changes to implementing the workplace pension reforms include the administrative savings associated with preparing for start-up and from automatically enrolling individuals as well as reductions in the cost of employer contributions for those individuals who do not opt out.

2.63 The net present value to business associated with the extension of staging and phasing is estimated to be a net benefit of £3,121 million over the 39 years from 2012 to 2050. The equivalent annual net cost to business (EANCB) is therefore estimated to be a saving in costs of £143 million (£137 million in 2009 prices).

## Section 3: Specific impacts

3.1 The following section presents the impact of the proposed implementation design on different types of groups.

### Small and micro firms

3.2 Deferring the staging period of small and micro firms from April 2014 to June 2015 provides a significant easement to small and micro employers as they are brought into the reforms later and have lower contribution costs over the implementation period as a result.

3.3 The changes to the implementation approach outlined in this Impact assessment is estimated to save business a total of £3.8 billion (in 2011/12 price terms) in lower contribution and administration costs over the implementation period (2012/13 to 2019/20). Of this, £2.0 billion (in 2011/12 price terms) is expected to be saved by small and micro firms over the implementation period.

3.4 Small firms (those with 5-49 workers) are estimated to save £1.4 billion in lower pension contribution costs and an additional £60 million in lower administrative costs. The corresponding savings for micro firms (those with fewer than 5 workers) are £460 million in lower contribution costs and £110 million in lower administrative costs.

**Table 2.10: Estimated total savings in pension contributions and administration costs by firm size arising from changes to workplace pension reform between 2012/13 and 2019/20 (£ million)**

	Minimum pension contributions saved	Administration costs saved	Total cost to business saved
Micro firms (1-4)	£460	£110	£570
Small firms (5-49)	£1,410	£60	£1,470
Medium firms (50-249)	£540	-	£540
Large firms (250 or more)	£1,210	-	£1,210
All firms	£3,630	£160	£3,790

Notes:

- Figures are expressed in 2011/12 price terms
- All figures rounded to the nearest £10 million and may not sum due to rounding.

### Competition

3.5 A full competition assessment was undertaken as part of the Pension Act 2008 Impact assessment. The deferral of staging for small and micro firms is not anticipated to have an impact on competition.

- 3.6 The increase in minimum employer contributions from 1 per cent to 2 per cent will occur from October 2017 under the revised approach. This is one year later than under previous arrangements. This means that the rate will remain unchanged until all existing businesses, and around half of new employers, are brought into automatic enrolment, so avoiding unfair financial disadvantages for the vast majority of businesses. It does mean, however, that new employers with staging dates of 1st October 2017 to 1st February 2018 will pay employer contributions at 2 per cent from the outset. This is balanced against the change which means that under the new proposals, new employers will have at least one additional year in which they pay no contributions at all.

## **Gender**

- 3.7 The proposed change to the staging of small and micro firms should not disproportionately affect women. For example, 38% of those eligible for automatic enrolment and working for a small or micro employer are women compared with 37% of those eligible for automatic enrolment working for a large and medium firms.

## **Race**

- 3.8 The proposed changes to staging and phasing do not disproportionately affect black and minority ethnic groups. Seven per cent of eligible workers in small and micro firms are from a black or minority ethnic background. The same proportion of eligible workers in large and medium firms.

## **Disability**

- 3.9 There is no evidence that the proposed changes to staging and phasing would disproportionately impact disabled people.

## **Age**

- 3.10 Those aged 50 or over are slightly more likely to work for a small or micro employer than large and medium employers (28 per cent of those eligible and aged 50 or over work for a small or micro employer compared with 26 per cent overall<sup>13</sup>). Therefore, the deferral of staging for small and micro firms will have a small impact on those aged 50 or over who will be delayed in given the opportunity to save in a workplace pension scheme.

## **Sexual orientation**

- 3.11 The measures discussed are not expected to have a disproportionate impact for individuals of different sexual orientations.

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<sup>13</sup> DWP analysis of the Annual Survey of Hours and Earnings, 2011.

## **Religion or belief**

3.12 The proposed measures are not anticipated to disproportionately affect individuals of different religions or beliefs.



## **Annex A: Estimated costs and benefits arising from the workplace pension reform measures under the revised implementation approach**

- A1. The following tables show the transfer costs and benefits of the reform under the proposed implementation approach. In all tables, costs are expressed in 2011/12 price terms.
- A2. The tables show the average annual changes over 39 years, followed by the one off cost and then the change in 2012 (which, due to phasing and staging of the automatic enrolment policy, is small). Finally, changes every ten years are shown, with an increased effect in later years due to population and earnings growth.
- A3. The estimates shown have changed since those shown in the Impact assessment that accompanied the consultation document “Reducing Administrative Burden of Automatic Enrolment. This is due to incorporating the latest data on the pension’s landscape, and wage and price inflation.
- A4. Tables in this section present net benefits of the workplace pension reforms: an additional cost is a negative number; an additional benefit is a positive number. These tables here are different from Tables 0.1 to 0.4 in the summary section which present net benefits of the proposed changes only.

### **Income transfers**

- A5. Table A1.1 shows income transfers under the revised implementation approach between different agents at specific points in time through to 2050.

**Table A1.1: Estimated transfer costs and benefits arising from workplace pension reform measures under the revised implementation approach (£ million)**

	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
<b>Individuals</b>							
a) Contribution costs	-7,140	0	-50	-6,020	-7,480	-9,300	-11,560
b) Receipt of income related benefits	-320	0	0	0	-240	-520	-890
c) Savings into private pension	14,850	0	120	12,480	15,510	19,290	23,970
<b>Net benefit</b>	<b>7,390</b>	<b>0</b>	<b>70</b>	<b>6,460</b>	<b>7,790</b>	<b>9,470</b>	<b>11,520</b>
<b>Employers</b>							
d) Contribution costs	-5,610	0	-60	-4,690	-5,830	-7,250	-9,010
<b>Net benefit</b>	<b>-5,610</b>	<b>0</b>	<b>-60</b>	<b>-4,690</b>	<b>-5,830</b>	<b>-7,250</b>	<b>-9,010</b>
<b>Government</b>							
e) Contribution costs (tax relief)	-2,100	0	-10	-1,770	-2,200	-2,740	-3,400
f) Income related benefit expenditure	320	0	0	0	240	520	890
<b>Net benefit</b>	<b>-1,780</b>	<b>0</b>	<b>-10</b>	<b>-1,770</b>	<b>-1,960</b>	<b>-2,220</b>	<b>-2,510</b>
<b>Total</b>							
<b>Net Benefit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Notes:

- Figures are expressed in 2011/12 price terms; present values are 2011/12 based.
- Costs shown include increases in earnings over and above price inflation.
- Figures are rounded to the nearest £10 million.
- The employer costs presented here are the sum of employer contributions and any tax relief available on those contributions.
- Costs are presented as negative numbers, benefits as positive numbers.
- Higher savings into private pension is the sum of tax relief, employer contribution and individual contribution costs.

## Resource benefits

A6. Table A1.2 shows the resource benefits of automatic enrolment under the revised implementation approach at specific points in time through to 2050.

**Table A1.2: Estimated resource costs and benefits arising from workplace pension reform measures under the revised implementation approach (£ million)**

	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
g) Employer administrative costs	-210	-180	-20	-170	-210	-260	-320
h) Cost of changing scheme rules	0	-70	0	0	0	0	0
<b>Net Benefit</b>	<b>-210</b>	<b>-250</b>	<b>-20</b>	<b>-170</b>	<b>-210</b>	<b>-260</b>	<b>-320</b>

### Notes

- Costs and benefits are in 2011/12 price terms; present values are 2011/12 based.
- Costs are presented as negative numbers, benefits as positive numbers.
- Figures are rounded to the nearest £10m.

A7. In addition to the direct financial impacts of the introduction of auto-enrolment, the estimated social welfare benefit is shown in Table A1.3.

**Table A1.3: Estimated social welfare benefit arising from workplace pension reform measures under the revised implementation approach (£ billion)**

Social welfare benefits (units of consumption, in billions)	Total benefit (present value)
	35-60
<b>Net Benefit</b>	<b>35-60</b>

### Notes:

- Present values are for the period 2012-2050 and are presented in 2011/12 prices.
- Costs are rounded to the nearest billion.

# Annex B: People saving due to private pension reform - explanation of participation estimates

## Background

- B1. The measures included in the Pensions Act 2008 are attempting to encourage and enable more people to save towards their retirement. This Annex summarises the latest estimates of participation, following amendments to this legislation encompassed in the 2011 Pensions Act. The estimates have been reviewed and updated in light of new evidence on the employer and pensions' landscape and employers' choice of pension scheme (see paragraphs B9 to B14)<sup>14</sup> and to reflect the Government's proposals in the recent review of the automatic enrolment earnings trigger and the qualifying earnings band amounts<sup>15</sup>. The measures discussed in this Impact Assessment do not affect the total number of individuals newly saving or saving more in a workplace pension.
- B2. Under the legislative changes set out in the Pensions Act from 2012, workers between the age of 22 and State Pension Age, with annual earnings in at least one job of more than £7,475 (the 2011/12 PAYE threshold) will be eligible for automatic enrolment into a qualifying pension scheme, unless they are already participating in such a scheme. The Government recently proposed setting this eligibility trigger at £8,105 (the 2012/13 PAYE threshold). In addition, employers may also operate a waiting period of up to three months before automatically enrolling employees into a qualifying scheme, with jobholders having the option to opt in to that scheme at any point during that period. It will be for the employer to choose the qualifying scheme into which they enrol their jobholders. The new NEST scheme will be one option open to employers and aims to complement existing workplace pension provision.
- B3. This Annex sets out our latest assumptions about what participation in workplace pension schemes will be after the reforms, (particularly focusing on how our analysis and assumptions have changed since the last participation estimates Annex was published in March 2012<sup>16</sup>.)
- B4. There is inherent uncertainty around our estimates. Although the assumptions set out here are informed by a programme of research, employers and individuals may change their behaviour in response to the reforms. This is why the analysis presented here includes low and high scenarios for all our trend and behavioural assumptions, and why figures are presented as broad ranges. The analysis presented here also assumes that all employers meet the requirements of the reforms, both to provide a workplace pension scheme, and automatically enrol their eligible employees into it. The analysis also assumes that around half of all employees will be subject to the maximum three month waiting period<sup>17</sup>
- B5. DWP will continue to monitor trends within the pension landscape and the economic context into which these reforms will be introduced, and so continue to improve the understanding of how the reforms will affect employers, individuals and the financial services industry.

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<sup>14</sup> In particular, updated information for employees by firm size from the Interdepartmental Business Register and information from the 2011 Employer Pension Provision Survey.

<sup>15</sup> See the Government response to the consultation on revision proposals for the automatic enrolment earnings trigger and the qualifying earnings band at : <http://www.dwp.gov.uk/docs/auto-enrolment-thresholds-response.pdf>

<sup>16</sup> Available here: <http://www.dwp.gov.uk/docs/wpr-rev-implementation-ia.pdf>

<sup>17</sup> Based on analysis of *Employers' Pension Provision Survey 2011*, DWP Research (forthcoming).

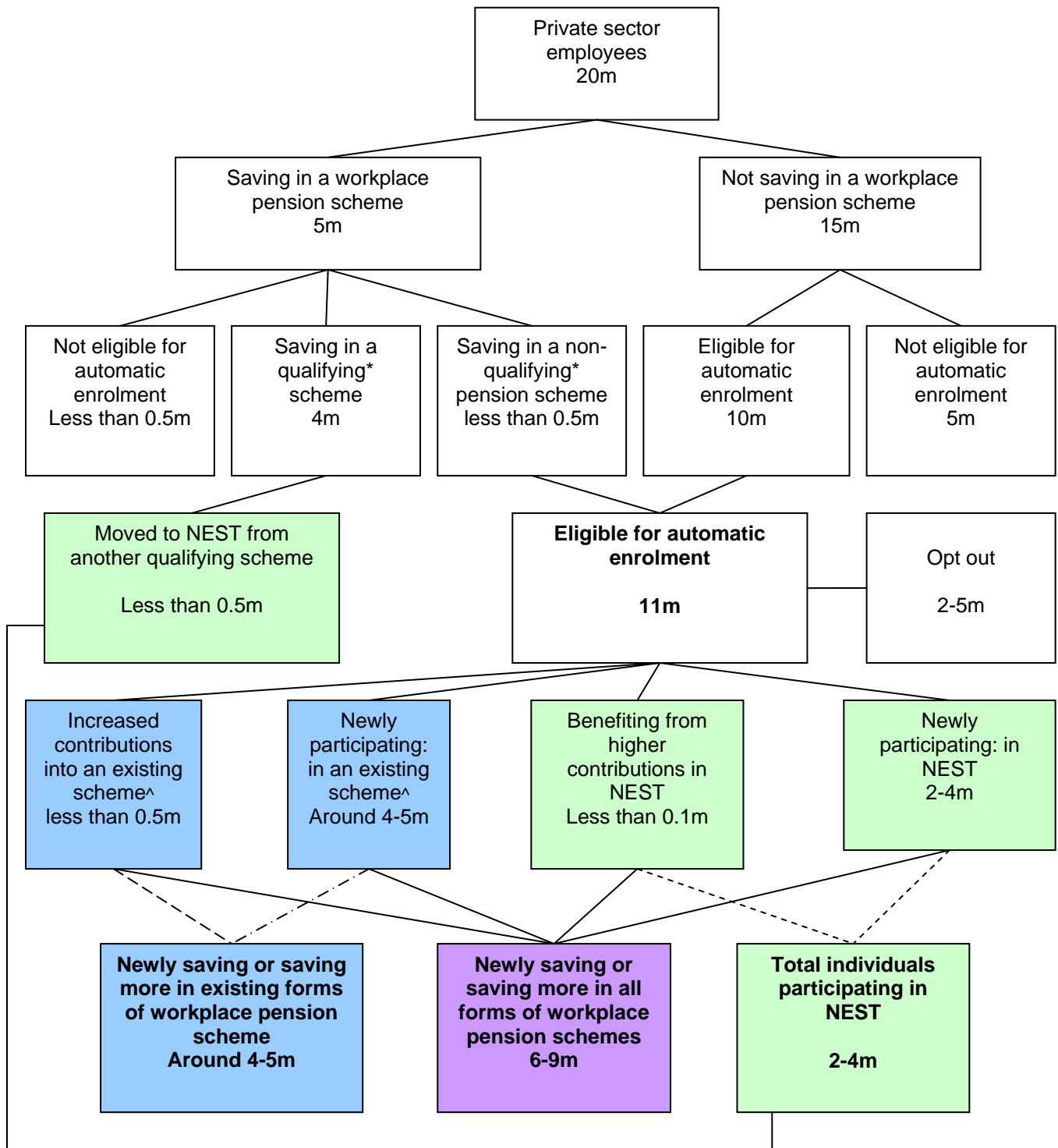
## Headline Figures

B6. Latest estimates show that around eleven million people are expected to be eligible for automatic enrolment into a workplace pension scheme. After accounting for people who opt out it is anticipated this will result in:

- 6 to 9 million people newly saving or saving more in all forms of workplace pension scheme, of these 2 to 3 million will be women;
- 4 to 5 million people newly saving or saving more in existing forms of workplace pension scheme; and
- 2 to 4 million people saving in the NEST scheme, of these around 1 million will be women. This includes some who were previously saving in existing forms of workplace pension scheme, and some who opt in.

B7. Figure G.1 sets out the range the estimates take for the number of people eligible for automatic enrolment, and the increase in number of people who are expected to be participating in the NEST scheme or in other forms of workplace pension scheme after the reforms are introduced.

**Figure G.1: Estimates of number of people newly saving or saving more after the introduction of the reforms**



Source: DWP modelling

Notes: Ranges are rounded to the nearest million, and therefore may not sum.

\* Taking an employer contribution of at least 3 per cent into a current workplace pension scheme as a proxy for a defined contribution scheme that is likely to qualify under the Pensions Act 2008. It is assumed that all defined benefit schemes qualify in this analysis.

^ This is an existing or newly set up workplace pension scheme, other than the NEST scheme.

## Assumptions underpinning participation estimates

B8. The Department's post-reform participation estimates are modelled in three key steps. Firstly, the current pension landscape is modelled in terms of employer provision of pension schemes and participation by employees. Secondly, using evidence from research with employers, assumptions are made about whether employers will use the new NEST scheme, their existing schemes, or other provision to fulfil their duty to provide a qualifying pension scheme to their workers. Thirdly, using evidence from research with eligible individuals, assumptions are made about how many people will opt out of a scheme upon being automatically enrolled by their employer. This section gives further information about each of these steps.

## Current pension landscape

B9. The estimate of the current pension landscape is derived from the Employers' Pension Provision (EPP) survey<sup>18</sup>, weighted to the Inter-Departmental Business Register (IDBR) statistics. Based on DWP analysis of the 2011 EPP survey, it is estimated that in 2012, 12 per cent of employers will offer a pension scheme with an employer contribution of three per cent of pay. This means that around 88 per cent will not offer a qualifying<sup>19</sup> pension scheme. It is also estimated that there will be around 1.2 million employers in 2012 and that there will be around 20 million private sector employees. It is further estimated that around 5 million employees will be saving in a workplace pension scheme and so around 15 million will not be saving in a workplace pension scheme.

B10. The 2010 Annual Survey of Hours and Earnings (ASHE) is used to identify the group of people who would be eligible for automatic enrolment. This identifies those aged between 22 and State Pension age, who earn over the new earnings threshold of at least £8,105 (the 2012/13 PAYE threshold).

B11. As a result, it is estimated that around eleven million employees will meet the eligibility criteria. This compares with the previous estimate that between nine and ten million workers would be eligible for automatic enrolment; the increase in the eligible group primarily being due to the effect of updating the pension landscape estimates with the latest information from the EPP. These totals include less than half a million people who are estimated to be currently receiving an employer contribution of less than three per cent.

## Employers' choice of pension scheme

B12. In the previous version of the participation estimates it was assumed that some firms who do not currently offer a qualifying pension scheme would be unprofitable to pension providers and have no choice but to use NEST. Recent developments in the pensions market suggests that many of these will now have a choice over the pension scheme they use. In practice the Department believes that many will continue to find it difficult to secure another qualifying scheme

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<sup>18</sup> *Employers' Pension Provision Survey 2011*, DWP Research (forthcoming).

<sup>19</sup> Taking an employer contribution of at least 3 per cent into a current workplace pension scheme as a proxy for a scheme that is likely to qualify under the Pensions Act 2008.

and its assessment is that most will choose to use NEST anyway. Therefore in these latest estimates it is assumed that all firms have a choice but that the majority of those previously deemed unprofitable by pension providers will choose NEST.

B13. The Department's latest employer choice assumptions make use of the latest available evidence on scheme choice from the Employer Intentions Module of the EPP in addition to results from NEST's Brand Tracker survey<sup>20</sup>, and take account of the impact that intermediary advice will have on employers' decisions. It is estimated that around 750,000 employers will use the NEST scheme for at least some of their employees. Analysis indicates that around four million employees will be enrolled into NEST and around six million employees will be enrolled into other qualifying schemes.

## **Opt-out by individuals**

B14. Although all eligible employees will be automatically enrolled into a qualifying pension scheme, participation is not compulsory and employees will have the opportunity to opt out. To estimate the number of individuals who will opt out the analysis uses evidence from the DWP's 2009 Individuals Attitudes Survey (IAS). More recent evidence from research conducted by the pensions industry is broadly in line with the IAS findings. Using the responses to the IAS, and taking account of the age and earnings distribution of those in the group eligible for automatic enrolment, it is estimated that one to two million employees will opt out of NEST, and one to three million employees will opt out of other qualifying schemes. This leaves two to four million employees participating in NEST, and four to five million employees participating in other qualifying schemes.

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<sup>20</sup> Brand Tracker is a quarterly survey with employers and intermediaries. The purpose of the survey is to help monitor the awareness of the reforms/NEST; perceptions of NEST; stage of planning and likelihood to use/recommend NEST. It is conducted through telephone interviews with 703 employers, 125 Independent Financial Advisers and 20 depth interviews with Employee Benefit Consultants in the UK.



# Annex C: Methodology underlying estimates of employer administrative cost of reform

## Background

C1 In the Pensions Bill Impact Assessment published in April 2008, the government presented estimates of the administrative costs of workplace pension reform to employers. This annex explains the methodology and key assumptions that underpin them.

C2 The administrative cost estimates published in the Pensions Bill Impact Assessment 2008 were the result of a cross-government working group which refined the estimates of the cost impacts for employers presented in the December 2006 White Paper *Personal Accounts: a new way to save*.<sup>21</sup> The working group comprised of economists from the Department of Work and Pensions, the Enterprise Directorate at the Department for Business, Enterprise and Regulatory Reform (BERR), and the Better Regulation Executive. The working group:

- systematically reviewed all of the assumptions underlying the estimates;
- incorporated evidence from the latest data sources including the Annual Survey of Hours and Earnings and evidence from a Department of Work and Pension's survey of employer attitudes and likely responses to reform<sup>22</sup>; and
- commissioned two new research projects on the costs to employers:
  - a series of focus groups with employers of different sizes to help validate our estimates of the cost of internally administering monthly contributions.<sup>23</sup> This research found the estimates to be broadly accurate and, if anything, slightly high; and
  - a small telephone-based survey to help establish the additional costs of administering monthly contributions to employers who currently outsource their payroll functions.<sup>24</sup>

## Methodology

C3 This analysis takes account of the range of processes and functions that employers will need to carry out in order to comply with their new obligations. These can be categorised as four discrete processes:

**Process 1:** preparing for start-up which includes:

- Investigating whether existing schemes meet the quality criteria;
- Decision makers meeting to discuss changes to business strategy due to the reforms;

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<sup>21</sup> More information about the group and the work that it completed can be found in Annex G of the Pensions Bill Impact Assessment. <http://www.dwp.gov.uk/docs/impact-assessment-240408.pdf>

<sup>22</sup> Grant, C, Fitzpatrick, A, Sinclair, P and Donovan, JL, 2008, *Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*, DWP Research Report No. 546.

<sup>23</sup> Stone, A., Allison, G., Braidford, P., Houston, M., (Durham University) 2007, *Anticipated administrative burdens on businesses of proposed personal accounts arrangements*. Available at: <http://www.berr.gov.uk/files/file42160.doc>.

<sup>24</sup> Butters, S., North, D., Vickers, I., Engelbert, S., Macauley, P., (Middlesex University Business School), 2007, *Enquiry for BERR and DWP on the predicted costs of additional payroll services to support personal account pensions*. Available at: <http://www.berr.gov.uk/files/file42159.doc>

- Making an arrangement with a pension scheme so that employees can be enrolled from the automatic enrolment date;
- Adapting or purchasing in-house or internal payment systems;
- Training staff to carry out the administrative processes;
- Communicating with all employees about the firm's response to the reforms.

**Process 2:** registration which includes:

- Receiving written confirmation from The Pensions Regulator about the firm's automatic enrolment date twelve and three months before that date;
- Registering for the PAYE service with the government gateway if payroll is outsourced;
- Registering with The Pensions Regulator each PAYE scheme giving details of the pension scheme(s) used to comply with the duties;
- Re-registering once every three years, verifying the details of the pension scheme(s) being used.

**Process 3:** enrolment activity which includes:

- Providing information to existing members of qualifying schemes;
- Providing information to jobholders whose automatic enrolment is being postponed;
- Enrolling eligible jobholders, providing them with the required information and providing their details to the pension scheme;
- Dealing with opt-outs and refunding any contributions deducted by the employer before the opt out was received;
- Providing information to jobholders not eligible for automatic enrolment and workers without qualifying earnings about their right to opt-in to pensions saving.

**Process 4:** collection and administration which includes:

- The calculation and collection of contributions from employees pay with effect from day one;
- Payment of contributions to the pension scheme;
- Dealing with queries about deductions;
- Processing requests to cease pension saving.

C4 Each of the processes described above involves a number of tasks which the firm will need to carry out. The cost of each task is dependent upon:

- The time taken to carry out the task;
- The person carrying out the task and their hourly wage; and
- The number of workers in the firm who would be enrolled into a qualifying scheme.

## Number of firms

C5 The estimates take into account the numbers of firms, excluding Worker-Director firms and PAYE schemes who will be required to comply with the employer duties have been revised as set out in

Annex F of the Workplace Pension Reform Regulations Impact Assessment published in January 2010. Our assumptions about how firms will comply with their duties have been revised to take account of the Employer Decision Making Survey<sup>25</sup>.

## **Wages**

C6 This analysis is based on median wage estimates from the latest Annual Survey of Hours and Earnings 2011. Wages have been inflated by 21 per cent<sup>26</sup> to take account of non-wage costs, such as employer national insurance contributions, estate costs and IT costs. Analysis on dividend payments in the smallest firms has been incorporated to more accurately reflect the remuneration of the owner/manager in these firms.

## **Registration and re-registration**

C7 The requirement for all PAYE schemes to register with The Pensions Regulator and confirm their compliance with the employer duties has been included. All PAYE schemes will need to be registered with the government gateway in order to access registration. For those who outsource their payroll to a third party provider, it may be necessary to register for a new service before they will be able to access registration.

C8 Firms will also be required to re-register with The Pensions Regulator every three years after automatic re-enrolment. This will involve updating the information provided at registration.

## **Enrolment activity**

C9 The estimates have been updated to take account of the latest estimates of the number of additional people saving after reform and where they might be saving, as set out in Annex F of the Workplace Pension Reform Regulations Impact assessment published in January 2010.

C10 The one-off cost associated with supplying information to existing members of qualifying schemes has been included. The costs of supplying information to workers and jobholders not eligible for automatic enrolment has been included, as has the cost of enrolling any individuals who decide to opt-in.

C11 The costs of the processes associated with automatic enrolment, opt-outs and refunds have been updated to reflect the policy detail that is now set out in the regulations.

C12 The ongoing costs now include estimates of the costs of automatic re-enrolment of individuals who opted out or cancelled more than 12 months previously.

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<sup>25</sup> The Employer Decision Making Survey, was commissioned by PADA and carried out between December 2008 and January 2009

<sup>26</sup> Better Regulation Executive guidance

## Collection and administration

- C13 HMRC analysis<sup>27</sup> has been used to estimate the time taken to fulfil employer duties. Research by Durham Business School<sup>28</sup> considered the time taken to carry out the monthly collection process for firms of different sizes. The research reported that the majority of respondents thought our estimates were appropriate if not a little high.
- C14 The estimates reflect HMRC information on the proportion of employers who are likely to outsource their monthly payroll obligations. Research by Middlesex University<sup>29</sup> examined the costs of additional obligations for firms who outsource their payroll systems. The results of their telephone survey suggest that additional costs to employers that already outsource their existing payroll obligations would be minimal due to the automated nature of the processes.

## Monitoring

- C15 The government will continue to monitor trends in pension provision, the economic context in which these reforms will be introduced and gather evidence on the attitudes of employers, to the reforms. The programme intends to fully evaluate the effects of the reforms. The evaluation will assess the impacts of the reforms on employers, to evaluate the extent to which the policy objective is met whilst putting minimal burden on employers and maintaining current good pension provision.

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<sup>27</sup> <http://www.hmrc.gov.uk/better-regulation/kpmg.htm>

<sup>28</sup> Stone, A, Allison, G, Braidford, P, Houston, M, (Durham University) 2007, *Anticipated administrative burdens on businesses of proposed personal accounts arrangements*. Available at: <http://www.berr.gov.uk/files/file42160.doc>.

<sup>29</sup> Butters, S, North, D, Vickers, I, Engelbert, S, Macauley, P, (Middlesex University Business School), 2007, *Enquiry for BERR and DWP on the predicted costs of additional payroll services to support personal account pensions*. Available at: <http://www.berr.gov.uk/files/file42159.doc>

# Annex D: Post Implementation Review (PIR) Plan

## Basis of the review:

The Department has made a commitment to fully evaluate the effects of the workplace pension reforms and how they are delivered. The Department published its plans for evaluating the Workplace Pension Reforms on the 4th July 2011 (<http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep764.pdf>). The Evaluation Strategy provides a framework for evaluating the effects of the reforms, and will feed into the 2017 Review.

## Review objective:

The evaluation will measure outcomes at different stages to check regulations are operating as expected and to provide an indication of whether there are any unintended consequences for individuals, employers or industry. Longer term evaluation will be against the policy objective of getting more people to save more for their retirement, and to increase pensioner incomes, reduce pensioner poverty and improve living standards for pensioners.

## Review approach and rationale:

There will be an ongoing evaluation using a range of data such as management information reports from NEST and the Pensions Regulator, stakeholder discussions, existing continuous surveys of individuals and employers, panel data and where appropriate, research commissioned by the Department and the Pensions Regulator. Where possible, key statistics to be drawn from ongoing large surveys such as the Office for National Statistics longitudinal Annual Survey of Hours and Earnings to ensure continuity of data availability.

## Baseline:

Pre-reform (Summer 2012).


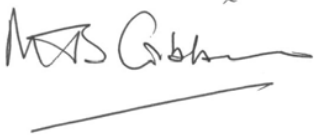
## Success criteria:

Success will be measured against the policy objective of getting more people to save more for their retirement. This objective should be achieved in a way that represents value for money for the taxpayer and puts minimal burden on employers whilst maintaining current good pension provision.

## Monitoring information arrangements:

Plans for ongoing monitoring form part of the governance structures across the Department, NEST and the Pensions Regulator. The evaluation will be carried out on an ongoing basis to gauge progress through implementation of the reform and beyond.

Reasons for not planning a review: [n/a]

 <b>Regulatory Policy Committee</b>	<b>OPINION</b>
<b>Impact Assessment (IA)</b>	Workplace Pension Reform – revised implementation schedule
<b>Lead Department/Agency</b>	Department for Work and Pensions
<b>Stage</b>	Final
<b>Origin</b>	Domestic
<b>Date submitted to RPC</b>	04/07/12
<b>RPC Opinion date and reference</b>	10/07/12                      RPC12-DWP-1262(3)
<b>Overall Assessment</b>	<b>GREEN</b>
<p>The IA is fit for purpose. The issues raised in our previous opinion (03/07/2012) have been adequately addressed. In particular, the IA now explains that whilst the costs from reduced ‘consumption smoothing’ have been monetised, they are not included in the NPV due to the level of uncertainty associated with the estimate.</p>	
<p><b>Identification of costs and benefits, and the impacts on small firms, public and third sector organisations, individuals and community groups and reflection of these in the choice of options</b></p> <p><i>Costs and benefits.</i> The issues raised in our previous opinion (03/07/2012) have been adequately addressed. While the department have still chosen not to include the cost from reduced ‘consumption smoothing’ in the NPV, they now make it clear that this is due to uncertainty surrounding the estimate and not because it is a non-financial cost.</p>	
<p><b>Have the necessary burden reductions required by One-in, One-out been identified and are they robust?</b></p> <p>The IA says that the proposal is deregulatory measure that has a direct net benefit to business (an ‘OUT’) with an Equivalent Net Cost to Business (EANCB) of -£137m. This is consistent with the current One-in, One-out Methodology and provides reasonable assessment of the likely impacts.</p>	
<p><b>Signed</b></p> 	<p><b>Michael Gibbons, Chairman</b></p>