

Simplified Automatic enrolment (AE) Communications and Provision of Improved AE Guidance

The Pensions Regulator (TPR)

RPC rating: validated

As a result of the regulator's response to the RPC's initial review notice, the BIT assessment has now been validated. As first submitted, the assessment was not fit for purpose.

Description of proposal

Pensions auto-enrolment is being rolled out progressively to smaller employers. In order to make information regarding automatic enrolment (AE) simpler for small and micro employers, TPR has simplified its AE communications (letters, email and website) and introduced a 'Duties Checker tool', allowing employers to check whether or not they will have staff to enrol and what they need to do to comply with their legal duties under AE legislation.

Impacts of proposal

In the 10 year period from 2016, TPR estimates that the changes will affect over 2.5 million small and micro employers.

The regulator argues that businesses will benefit from reductions in the time required to understand the requirements for automatic enrolment.

To assess the impact, the regulator used survey data from different waves of the rollout (to estimate changes in unit costs), combined with HMRC PAYE data modelled by DWP/TPR (to estimate numbers of businesses affected). The regulator found that internal costs have been reduced for both micros and small firms. The estimated cost saving for micros accounts for the bulk of the overall impact and it is based on statistically significant reductions in processing time and cost.

The percentage of firms using external advice has decreased but the amount they spend has increased, leading to an unexpected increase in the cost of external advice, although this change is small and statistically insignificant.

On this basis, the regulator estimates an annual saving of £32 million associated with ‘understanding the legislation and employer duties’. The regulator has also provided sensitivity analysis around the saving in internal resources required to understand AE requirements in micro businesses (the key driver of the cost savings). This suggests a range of cost estimates from £10.33 million to £51.18 million.

Quality of submission

As originally submitted, the assessment was not fit for purpose. In particular, it did not describe the impacts of the measure clearly. Furthermore, the regulator’s assertion at the beginning of the assessment, that the policy was expected to reduce the need for external advice but internal familiarisation costs could increase, did not seem to be supported by the survey evidence presented, which suggested the reverse.

The regulator has now included a breakdown of the variations in the number of businesses over time (i.e. the number of small and micro employers using TPC material); the internal and external costs expected over the period; and each of the potential factors that drive its cost and benefit estimates, including an assessment of the statistical significance of each effect.

Regarding evidence relating to external advice, TPR has clarified in the resubmission that although the evidence suggests that the cost of external advisors would increase, this is not assessed to be statistically significant. Furthermore the regulator has demonstrated that the proportion of businesses using paid advice fell, which supports the regulator’s view that the policy would reduce the need for external advice.

The regulator has shown in the assessment that the reduction in internal costs for both small and micro businesses is the dominant impact of the policy. The estimated cost saving for micros accounts for the bulk of the overall impact and is shown to be the result of a statistically significant reduction in processing time and cost. Whilst the regulator does suggest that “it is possible that internal resources consumed may actually increase due to substitution effect as the changes make it less necessary for employers to pay for external support and activities are internalised”, it finds no evidence in the data to support this hypothesis.

The RPC also stated that the original submission should include a more detailed analysis of other potential factors driving the observed changes in costs, apart from the improved ‘understanding [of] the legislation and employer duties’ due to the policy intervention. In its revised assessment, the regulator argues that it is “not aware of any other significant change (other than the interventions being reviewed) that is likely to account for [the] variations in results”. Furthermore, the regulator has conducted statistical tests of three of the most obvious factors aside from the policy change that could lead to the estimated savings, and found none of these to be significant.

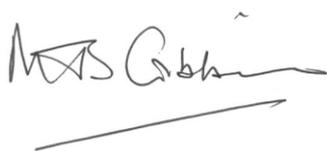
The RPC is satisfied that the regulator has adequately addressed the concerns raised in the IRN. Although both the magnitude and the range of the estimated impact of this policy are substantial, the analysis conducted is proportionate and sufficient to justify the EANDCB calculation

Departmental assessment

Classification	Not Provided
Equivalent annual net cost to business (EANCB)	-£32 million
Business net present value	£286 million
Business Impact Target (BIT) Score ¹	-£158 million

RPC assessment

Classification	Qualifying regulatory provision (OUT)
EANCB – RPC validated ¹	-£32.0 million



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.