

# Workplace Pension Reform: digest of key analysis

July 2012

## Introduction

Millions of people in the UK are not saving enough for retirement. The legislative changes set out in the Pensions Act 2008, the Pensions Act 2011 and the packages of associated regulations aim to increase private pension saving in the UK. They form part of a wider pensions strategy 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.

The reforms require employers to automatically enrol eligible workers into a qualifying workplace pension scheme. Workers will be eligible provided they are aged at least 22 and under State Pension age, and earn over £8,105 (in 2012/13 terms). 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. As part of the reforms, the National Employment Savings Trust (NEST), a trust-based occupational pension scheme, has been set up with a public service obligation to accept any employer (and qualifying jobholder) that wishes to use the scheme.

The new employer duties are being introduced from October 2012. Employers will be staged incrementally starting with the largest. Employers will also be able to adapt to the additional costs of the minimum contribution gradually, by phasing in contributions over time. The reforms will be fully implemented by October 2018.

This publication presents analysis that summarises the key impacts of the workplace pension reforms on employers, workers and Government.

## Methodology

Estimates presented here are based on DWP modelling which makes use of the latest available evidence on the employer and pensions' landscape, individuals' and employers' attitudes to pension provision and the reforms, and employers' choice of pension scheme<sup>1</sup>.

Eligible workers are defined as those:

- Ordinarily working in Great Britain;
- Aged between 22 and State Pension age;<sup>2</sup>
- Earning greater than £8,105<sup>3</sup> in total gross pay, in 2012/13 earnings terms.

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<sup>1</sup> A range of sources have been used, including the Employer Pension Provision Survey 2011 and the Annual Survey of Hours and Earnings 2010. A full account of the sources and methods used is available in the impact assessment that accompanied the workplace pension reform 2010 regulations: <http://www.dwp.gov.uk/docs/wpr-ia.pdf>

<sup>2</sup> Here State Pension age is defined as it was in 2007, where men reached State Pension age on their 65<sup>th</sup> birthday, and women reached State Pension age on turning 60. When automatic-enrolment begins in October 2012, the State Pension age of women will be slightly higher, due to the equalisation of State Pension age.

<sup>3</sup> This threshold is converted into 2010/11 earnings terms at £7,825.

**Participation estimates** have been informed by a programme of research. Nevertheless employers and individuals may change their behaviour in response to the reforms, so there is inherent uncertainty around the estimates. To reflect this uncertainty, estimates of those newly saving or saving more are presented as broad ranges constructed using low and high scenarios for all our trend and behavioural assumptions. The size of the population eligible for automatic enrolment is presented as a point estimate as it does not depend on assumptions about employer and individual behaviour and so is not subject to these sources of uncertainty.

Estimates of **minimum pension contributions** resulting from the reforms show the additional costs to employers and workers of the reforms and are calculated using:

- the participation estimates which provide the number of workers for and from whom additional contributions are due;
- workers' average qualifying earnings<sup>4</sup> estimated using the Annual Survey of Hours and Earnings (ASHE)<sup>5</sup>; and
- assumed minimum contribution rates for employers (3% of band earnings) and workers (4% of band earnings).

Estimates of **tax relief** are calculated by multiplying the estimates of workers' additional pension contributions by the income tax rate. An adjustment is applied to allow for tax relief paid on contributions by higher rate income tax payers.

Estimates of the **administrative costs to employers** associated with the reforms take 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: preparing for start-up; registration; enrolment activity; and collection and administration<sup>6</sup>.

Estimates of the **social welfare benefits** of the reforms attempt to place a value on the benefit to individuals of transferring 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)<sup>7</sup>.

Estimates of the **characteristics of the population eligible for automatic enrolment** are produced using the ASHE 2010. Earnings analysis is presented for two groups: the eligible population and those workers who are eligible for automatic enrolment but who are not already saving in a workplace pension ("target

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<sup>4</sup> Qualifying earnings is defined as the band of earnings between £5,564 and £42,475 in 2012/13 earnings terms.

<sup>5</sup> For more details on ASHE methodology, see the ONS documents here:  
<http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Annual+Earnings>.

<sup>6</sup> Annex G of the workplace pension reforms regulations 2010 impact assessment presents a detailed explanation of the methodology behind the estimates of the administrative costs to employers:  
<http://www.dwp.gov.uk/docs/wpr-ia.pdf>

<sup>7</sup> Annex H of the workplace pension reforms regulations 2010 impact assessment presents a detailed explanation of the methodology behind the estimates of the social welfare benefits of the reforms:  
<http://www.dwp.gov.uk/docs/wpr-ia.pdf>

population”). By definition, all workers in the target population are eligible for automatic enrolment. The eligible population is defined above. The definition of the target population is set out below:

**Target population:** covers eligible workers who are either (i) not saving in a pension scheme; or (ii) saving in a pension scheme where the employer contributes less than 3% of the worker’s salary, and is not a defined benefit scheme.

## Results

### Participation estimates

Table 1 presents estimates of volumes participating in workplace pensions following the reforms.

**Table 1: Participation estimates**

	<b>Low</b>	<b>Principal</b>	<b>High</b>
Eligible for automatic enrolment	n/a	11 million	n/a
After accounting for opt-out:			
Newly saving or saving more in all forms of workplace pension	6 million	8 million	9 million
of which, women	2 million	3 million	3 million
Newly saving or saving more in existing forms of workplace pension	4 million	5 million	5 million
of which, women	1 million	2 million	2 million
Participating in NEST	2 million	3 million	4 million
of which, women	1 million	1 million	1 million

Notes:

1. Figures are rounded to the nearest 1 million workers.
2. n/a = high and low scenario estimates are not applicable.

### Employer costs

Table 2 presents estimates of the annual cost of the workplace pension reforms to employers. Estimates of minimum annual employer contributions are presented as ranges mainly reflecting uncertainty over the level of opt-out by workers. Figures are presented in steady state, once contributions have been fully phased in.

**Table 2: Annual cost of workplace pension reforms to employers (2012/13 earnings terms)**

	<b>Low</b>	<b>Principal</b>	<b>High</b>
Minimum employers' contributions	£2,929m	£4,033m	£4,446m
Year 1 total administrative cost	n/a	£480m	n/a
Total ongoing annual administrative cost	n/a	£150m	n/a

Notes:

1. Minimum contribution costs are rounded to the nearest £1 million.
2. Administrative costs are rounded to the nearest £10 million.
3. n/a = estimates not available.

Table 3 presents estimates of the annual costs to employers by firm size in steady state once contributions have been fully phased in.

**Table 3: Annual cost of workplace pension reforms to employers by firm size (2012/13 earnings terms)**

	<b>Micro (1-4)</b>	<b>Small (5-49)</b>	<b>Medium (50-249)</b>	<b>Large (250 or more)</b>	<b>All firms</b>
Number of firms	735,000	410,000	32,000	6,000	1,183,000
<u>Minimum contributions</u>					
Total minimum contribution cost	£388m	£1,249m	£717m	£1,679m	£4,033m
Minimum contribution cost per firm	£500	£3,000	£22,000	£250,000	£3,500
<u>Year 1 administrative cost</u>					
Year 1 total administrative cost	£190m	£140m	£60m	£100m	£480m
Year 1 average administrative cost per firm	£250	£350	£1,500	£16,000	£400

**Table 3 continued**

	<b>Micro (1-4)</b>	<b>Small (5-49)</b>	<b>Medium (50-249)</b>	<b>Large (250 or more)</b>	<b>All firms</b>
<u>Annual ongoing administrative cost</u>					
Total ongoing annual administrative cost	£80m	£40m	£10m	£20m	£150m
Average annual ongoing administrative cost per firm	£100	£100	£350	£2,500	£150

Notes:

1. Number of firms is rounded to the nearest thousand.
2. Minimum contribution costs are rounded to the nearest £1 million.
3. Year 1 total administrative costs and total ongoing annual administrative costs are rounded to the nearest £10 million.
4. Average administrative costs per firm are rounded to the nearest £50,000, £1,000, £500, £100, £50, or £10 as appropriate.
5. Totals may not sum due to rounding.

## Minimum workers' contributions

Table 4 presents estimates of the annual minimum contributions paid by workers in steady state once contributions have been fully phased in.

**Table 4: Annual minimum contributions to workplace pensions by workers (2012/13 earnings terms)**

	<b>Low</b>	<b>Principal</b>	<b>High</b>
Minimum workers' contributions	£3,714m	£5,176m	£5,720m

Notes:

1. Minimum contributions are rounded to the nearest £1 million.

## Tax relief on workers' contributions

Table 5 presents estimates of the annual tax relief payable on workers' minimum contributions in steady state once contributions have been fully phased in.

**Table 5: Annual tax relief payable on minimum workers' contributions (2012/13 earnings terms)**

	Low	Principal	High
Tax relief on workers' contributions	£1,078m	£1,524m	£1,692m

Notes:

1. Tax relief estimates are rounded to the nearest £1 million.

## Total workplace pension contributions

Table 6 presents estimates of total annual workplace pension contributions in steady state once contributions have been fully phased in. Total contributions are made up of employers' contributions, workers' contributions and tax relief paid on workers' contributions.

**Table 6: Annual total minimum contributions to workplace pensions (2012/13 earnings terms)**

	Low	Principal	High
Total workplace pension contributions	£7,721m	£10,734m	£11,858m

Notes:

1. Minimum contributions are rounded to the nearest £1 million

## Social welfare benefit

Table 7 presents the estimated social welfare benefit arising from the workplace pension reforms.

**Table 7: Social welfare benefit arising from workplace pension reform measures**

Social welfare benefit (units of consumption, in billions)	Total benefit (present value)
Net Benefit	£35 - £60bn

Notes:

1. Present values are for the period 2012-2050
2. Benefits are rounded to the nearest £5 billion.

## Characteristics of the population eligible for automatic enrolment

### Gender composition of the eligible population

Table 8 presents the proportion of the population eligible for automatic enrolment by gender and how this varies by age group.

**Table 8: Gender and age breakdown of the population eligible for automatic enrolment, 2010/11**

Age	Male	Female
22-29	58	42
30-39	64	36
40-49	63	37
50-59	61	39
60-64	100	0
Total	63	37
Base (weighted)	8,288,000	4,776,900

Notes:

1. Figures relate to Great Britain,
2. Figures are rounded to the nearest percentage point, numbers of observations to the nearest hundred.

### Age composition of the eligible population

Table 9 presents the proportion of the population eligible for automatic enrolment by age group and how this varies by gender.

**Table 9: Age breakdown of the population eligible for automatic enrolment, 2010/11**

Age	Male	Female	Total
22-29	18	23	20
30-39	27	26	27
40-49	29	29	29
50-59	19	22	20
60-64	6	0	4
Base (weighted)	8,288,000	4,776,900	13,064,900

Notes:

1. Figures relate to Great Britain.

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2. Figures are rounded to the nearest percentage point.
3. Analysis is restricted to the private sector and not-for-profit sectors.

### Earnings characteristics of the eligible population and the target population

Table 10 presents the proportion of the eligible and target populations earning within 5 pence of the national minimum wage<sup>8</sup>.

**Table 10: Proportion of eligible and target population earning within 5 pence of the national minimum wage, 2010/11**

	Male %	Female %	Total %	n (weighted)
<b>Eligible population</b>	1.7 – 2.0	2.5 – 2.9	2.1 – 2.3	13,064,900
<b>Target population</b>	2.8 – 3.2	3.9 – 4.4	3.3 – 3.6	7,808,600

Notes:

1. Figures relate to Great Britain.
2. Ranges represent 95% confidence intervals around the mean.
3. Analysis is restricted to the private sector and not-for-profit sectors.

Table 11 presents the proportion of the eligible and target populations earning within 50 pence of the national minimum wage.

**Table 11: Proportion of eligible and target population earning within 50 pence of the national minimum wage, 2010/11**

	Male %	Female %	Total %	n (weighted)
<b>Eligible population</b>	4.7 – 5.1	8.7 – 9.3	6.2 – 6.5	13,064,900
<b>Target population</b>	7.5 – 8.1	12.7 – 13.5	9.6 – 10.1	7,808,600

Notes:

1. Figures relate to Great Britain,
2. Ranges represent 95% confidence intervals around the mean.
3. Analysis is restricted to the private sector and not-for-profit sectors.

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<sup>8</sup> The national minimum wage was £5.80 in April 2010.

Table 12 presents the median gross annual earnings by gender for the private sector, eligible target and eligible non-target populations.

**Table 12: Median gross annual earnings by gender for the private sector, eligible and target populations, 2010/11**

	<b>Male</b>	<b>Female</b>	<b>Total</b>	<b>n (weighted)</b>
<b>Private sector population</b>	£26,400	£15,800	£21,800	15,013,200
<b>Eligible target population</b>	£22,700	£16,400	£20,100	7,808,600
<b>Eligible non-target population</b>	£35,100	£24,700	£31,500	5,256,300

Notes:

1. Figures relate to Great Britain.
2. Private sector figures are for all private sector workers aged at least 22.
3. The private sector figures here are included to provide context for the target population figures. Please note that the median earnings figures differ from figures published by the ONS. ONS figures include employees whose pay is affected by absence, excluding those who have not worked the full year and cover those aged 16 and over.
4. Analysis is restricted to the private sector and not-for-profit sectors.
5. Figures are rounded to the nearest hundred, with earnings expressed in nominal terms.
6. Median annual earnings are based on records of weekly earnings, which are then converted to annual earnings. They are not adjusted to include the effects of part time work, or short spells in employment and exclude employees whose pay is affected by absence.