Regulatory Policy Committee	**Validation of the One-in, Two-out Status and the Net Direct Impact on Business**
Validation Impact Assessment (IA)	Exceptions to the employer duty for automatic enrolment
Lead Department/Agency	Department for Work and Pensions
IA Number	DWP0050
Origin	Domestic
Expected date of implementation	SNR 9
Date of Regulatory Triage Confirmation	6 October 2014
Date submitted to RPC	29 January 2015
Date of RPC Validation	9 March 2015
RPC reference	RPC14-FT-DWP-2214(2)
Departmental Assessment	
One-in, Two-out status	OUT
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	Not quantified
RPC assessment	**VALIDATED**

Summary RPC comments

The validation IA is fit for purpose.

The IA says that this is a deregulatory proposal (an 'OUT'). The Department estimates that there will be a net benefit to employers but is unable to monetise this benefit. The Department explains that it would not be proportionate to undertake a survey to seek to monetise the impact and this appears to be reasonable. In accordance with the guidance, the proposal will be treated as zero net cost for One-in, Two-out purposes.

Background (extracts from IA)

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

"During the initial stages of automatic enrolment it became apparent that pension saving, or further pension saving, may not be appropriate for some eligible workers. In its response to the March 2013 consultation on technical changes to improve the operation of automatic enrolment, the Government expressed the view that there was a strong case for exempting from the automatic enrolment requirement individuals who are leaving employment, who cancel membership of a pension scheme before automatic enrolment

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and those with tax protected status for existing pension savings. Government intervention is necessary to prevent employers from undertaking nugatory work and to prevent workers who have little or nothing to gain from being automatically enrolled."

What are the policy objectives and the intended effects?

"The policy objective is to prevent unnecessary administrative burden on employers from enrolling and re-enrolling employees for whom automatic enrolment is clearly not suitable. Furthermore it aims to prevent individuals from being adversely impacted by being automatically enrolled into a workplace pension when it is not appropriate.

By exempting certain categories of individuals who would not benefit from automatic enrolment from being enrolled in the first place, the administrative burden on employers is reduced as is the risk that individuals will not opt out and so would be adversely impacted."

RPC comments

The proposal gives an employer the flexibility to choose whether to exclude certain employees, of a prescribed class or description, from the scope of automatic enrolment in its pension scheme. This includes individuals:

- who are leaving employment;
- who cancel membership of a pension scheme before automatic enrolment; and
- with tax protected status for existing pension savings, including those who have been paid a winding up lump sum in a particular circumstance.

The IA explains that there are approximately 1.3 million employers who could potentially be affected by the proposal. The Department explains that these changes are permissive and assumes that employers are only likely to adopt the changes if the benefits are at least equal to the costs. The IA explains that the Department's consultation did not provide sufficient information to enable it to monetise the costs and benefits of the proposal. Respondents were, however, supportive of the changes and consider the changes are likely to reduce the administrative costs imposed on employers by automatic enrolment.

The IA explains that to obtain evidence on the number of employers and individuals who would take advantage of the proposal would require a survey of employers. The Department considers that the cost of undertaking these surveys would be disproportionate. This appears to be reasonable.

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estimates that there will be a net benefit to employers but is unable to monetise this benefit. The Department explains that it would not be proportionate to undertake a survey to seek to monetise the impact. In accordance with the guidance, the proposal will be treated as zero net cost for One-in, Two-out purposes.		
Signed		**Michael Gibbons,** Chairman