Title: **Workplace Pension Reform Secondary Legislation** **Lead department or agency:** Department for Work and Pensions **Other departments or agencies:** N/A	Impact Assessment (IA) **IA No:** DWP 0005 **Date:** 01/07/2011 **Stage:** Consultation **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** workplacepensionreform.consultation@dwp.gsi.gov.uk

Summary: Intervention and Options

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 Act of 2008 and the Pensions Bill 2011. This Impact Assessment addresses the final set of regulations of the workplace pension reform programme. In particular, it covers the treatment of seafarers and offshore workers and it addresses the administrative processes necessary to support the introduction of waiting periods (which allow employers a window of up to three months before new duties to automatically enrol qualifying workers into a workplace pension scheme apply, for both existing and new employees).

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. The key proposals discussed in this Impact Assessment are intended to (i) clarify and legislate for the treatment of seafarers and offshore workers, ensuring they are covered by the reforms, and (ii) put in place the administrative arrangements necessary to support the deregulatory package resulting from the Coalition Government's independent review of the reform programme. This will enable the waiting period to work in practice, setting out the content of the information notice about the waiting period, the time period in which an employer must give the notice to the worker and the worker's right to opt in during this period.

What policy options have been considered, including any alternatives to regulation?

i) Clarifying and legislating for the treatment of seafarers and offshore workers

The preferred option is to bring seafarers and offshore workers within the reforms. Excluding these groups was considered, but it was not considered equitable, for these individuals or businesses, as they would be the only classification of workers excluded from the reforms (the regulations are only necessary as these groups were excluded from the original legislation for technical, rather than policy, reasons).

ii) Clarifying the content and timing of the waiting period notice

The Pensions Bill 2011 requires the employer to issue a waiting period notice if they choose to use a waiting period. The waiting period notice is necessary to ensure that the broader deregulatory reform of waiting periods work in practice. Issuing the notice in the first week rather than the first day or first month was preferred in order to minimise the burden for employers and balance the risk of loss to individuals' savings.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 2017
What is the basis for this review? PIR. **If applicable, set sunset clause date:** N/A

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review? **Yes**

<u>SELECT SIGNATORY Sign-off for</u> consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Steve Webb **Date:** 09/07/2011

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: 154**

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	**Optional**	**1**	**Optional**	Optional
High	**Optional**		**Optional**	Optional
Best Estimate	**0.4**		**92**	1,735

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: Employer contributions: £33m; Individual contributions: £36m; Government (tax relief): £15m

Resource Costs: Employer administrative costs: £8m

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

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	**Optional**	**1**	**Optional**	Optional
High	**Optional**		**Optional**	Optional
Best Estimate	**0**		**84**	1,581

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

The costs shown here are the average annual costs between 2012 and 2050 in present (2011/12) prices.

Transfers: Employer contributions: £33m; Individual contributions: £36m; Government (tax relief): £15m

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

Benefits of consumption smoothing to those additional individuals brought within the scope of automatic enrolment. This amount does not represent a financial transfer but represents the perceived value to individuals from transferring income from more affluent times to retirement. For more information see Annex H of the Workplace Pension Reform Regulations Impact Assessment 2010.

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

The success of these reforms is sensitive to the behaviour of individuals and employers. The key assumptions are: individual participation rates, employer choice of qualifying scheme and employer pension contributions following reform, and mechanism for dealing with costs of reforms. The outcomes of pension saving for individuals are dependent on returns to investment. Green book guidance has been followed for macro assumptions about long term inflation (2 per cent), and the long term discount rate falling to 3 per cent after 30 years. Long term earnings growth is assumed to be 2 per cent in real terms in line with the Office for Budget Responsibility's Economic and Fiscal outlook.

Direct impact on business (Equivalent Annual) £m):			In scope of	Measure
Costs: -36	**Benefits:** 0	**Net:** -36 (see Table 0.3)	Yes	**IN**

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			**Great Britain**		
From what date will the policy be implemented?			**01/07/2012**		
Which organisation(s) will enforce the policy?			**Department for Work and Pensions, The Pensions Regulator**		
What is the annual change in enforcement cost (£m)?			**Commercial (contracted)**		
Does enforcement comply with Hampton principles?			**Yes**		
Does implementation go beyond minimum EU requirements?			**N/A**		
What is the CO_2 equivalent change in greenhouse gas emissions? **(Million tonnes CO_2 equivalent)**			**Traded:** N/A		**Non-traded:** N/A
Does the proposal have an impact on competition?			**No**		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: **0%**		Benefits: **0%**
Distribution of annual cost (%) by organisation size **(excl. Transition) (Constant Price)**	**Micro** N/A	**< 20** N/A	**Small** N/A	**Medium** N/A	**Large** N/A
Are any of these organisations exempt?	**No**	**No**	**No**	**No**	**No**

Specific Impact Tests: Checklist

Does your policy option/proposal have an impact on…?	**Impact**	**Page ref within IA**
Statutory equality duties[1] Statutory Equality Duties Impact Test guidance	**Yes**	**Page 49**
Economic impacts		
Competition Competition Assessment Impact Test guidance	**No**	
Small firms Small Firms Impact Test guidance	**Yes**	**Page 48**
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	**No**	
Wider environmental issues Wider Environmental Issues Impact Test guidance	**No**	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	**No**	
Human rights Human Rights Impact Test guidance	**No**	
Justice system Justice Impact Test guidance	**No**	
Rural proofing Rural Proofing Impact Test guidance	**No**	
Sustainable development Sustainable Development Impact Test guidance	**No**	

[1] Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

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 Bill Impact Assessment – April 2008
2	Impact Assessment:(Automatic Enrolment) Regulations – March 2009 (consultation stage)
3	Impact Assessment: Workplace Pension Reform (Completing the Picture) Regulations 2009 (consultation stage)
4	Workplace Pension Reform Regulations: Impact Assessment – January 2010
5	Making Automatic Enrolment Work Review – October 2010
6	Pensions Bill 2011: Workplace Pension Reform Impact Assessment – January 2011

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

The following tables show the costs and benefits of the changes to the Workplace Pension Reform secondary legislation. The costs and benefits arise from the Government's proposals to clarify:

- how the workplace pension reforms will apply to seafarers and offshore workers; and
- the content and timing of the waiting period notice that employers must provide to the worker if they choose to use a waiting period.

The tables present 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, with an increased effect in later years due to earnings growth. The 39 year time period is consistent with the methodology used in previous Impact Assessments relating to the Workplace Pension Reform Regulations.

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

Figures presented in this evidence base are consistent with the Better Regulation Executive guidelines. 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.

Income transfers

The measures relating to bringing seafarers and offshore workers within the scope of automatic enrolment outlined in this Impact Assessment give rise to transfers of income between different economic agents, such as employers, individuals and the Government, as well as transfers of income across people's lives. Table 0.1 shows the impact of including seafarers and offshore workers in the scope of automatic enrolment on income transfers for specific points in time through to 2050.

The effect of extending the scope of automatic enrolment is to increase pension contributions from employers, individuals and the Government (in the form of tax relief). This results in higher pension savings.

Table 0.1: Estimated transfer costs and benefits arising from bringing seafarers and offshore workers within the scope of automatic enrolment (£ million)							
	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
Individuals							
a) Contribution costs	-36	0	-11	-30	-36	-44	-53
b) Savings into private pensions	84	0	28	69	84	102	124
Net benefit	**48**	**0**	**17**	**40**	**48**	**59**	**71**
Employers							
c) Contributions costs	-33	0	-11	-28	-34	-41	-50
Government (income tax relief)							
d) Contribution costs	-15	0	-6	-12	-15	-18	-22
Total							
Net Benefit	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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. The distribution of these costs will depend on how employers manage these costs and over what time period.
- Costs are presented as negative numbers, benefits as positive numbers.
- Information on the staging of employers is not currently available for seafarers and offshore works and so it is assumed that the duties begin in 2012. The phasing of contributions is accounted for.

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

b) 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.

c) 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.

d) Government contribution costs (tax relief) reflect changes to the costs to the Exchequer of tax relief on individuals' pension contributions.

Resource costs and benefits

The measures outlined in this Impact Assessment related to bringing seafarers and offshore workers within the scope of automatic enrolment and introducing the waiting period notice have resource implications for employers in terms of administrative costs. Table 0.2 outlines the resource costs and benefits of these measures. The net effect is a cost to business of £8 million on average each year (in 2011/12 price terms) over the 39 year period from 2012 to 2050.

Table 0.2: Estimated resource costs (£ million)							
	Annual average	One off cost (present value)	2012	2020	2030	2040	2050
e) Employer administrative costs for seafarers and offshore workers	-1.0	-0.4	-0.8	-0.7	-0.9	-1.2	-1.5
f) Employer administrative costs from the waiting period notice for all eligible workers	-6.8	0.0	-2.0	-5.1	-6.2	-7.6	-9.2
Net Cost	-7.7	-0.4	-2.9	-5.9	-7.2	-8.8	-10.7

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.
- All figures are rounded to the nearest £0.1 million.
- Information on the staging of employers is not currently available for seafarers and offshore works and so in the analysis it is assumed that the duties apply from 2012. This means that the one off costs all occur in 2012 and that automatic enrolment of the stock of jobholders, not currently in a workplace pension scheme, also occurs in 2012.

e) Employer administrative costs for seafarers and offshore workers reflects the cost to employers of having to automatically enrol seafarers and offshore workers into a qualifying pension and administer participation in the schemes.

f) Employer administrative costs arising from the waiting period notice reflects the cost to employers of providing all eligible individuals with a waiting period notice when an employer chooses to use a waiting period.

Non-monetised benefits

The increase in pension saving from bringing seafarers and offshore workers within the scope of automatic enrolment will be associated with those individuals enjoying increased well-being over their lifetime as a result of transferring income from a period when their income is relatively high (when they are working) to a period in which their income would otherwise be lower (after they retire). This results in a welfare gain to society as a result of greater consumption smoothing.

For workplace pension reform as a whole, a social welfare benefit of £40 to £60 billion up to 2050 is estimated[2]. The extension in scope outlined in this Impact Assessment will increase the automatically enrolled workforce by less than one per cent and therefore will have a small positive impact on the value of consumption smoothing.

[2] This amount does not represent a financial transfer but represents the value to individuals from transferring income from more affluent times to retirement.

Costs and benefits to business for One In, One Out

Table 0.3 shows the Net Present Value (NPV) costs and benefits to business of each of the measures described in this Impact Assessment and the Equivalent Annual Net Cost to Business. The NPV of the employer providing individuals with a waiting period notice is estimated to be a net cost of £135 million over the 39 years from 2012 to 2050. The Pensions Bill requires the employer to use a waiting period notice if choosing to use a waiting period. The benefit of the waiting period to firms was included in the Impact Assessment which accompanied the Pensions Bill 2011[3] and The Equivalent Annual Net Cost to Business (EANCB) of the pension contributions saved during the waiting period of three months is estimated to be £175 million (saving)[4].

The combined NPV of the measures discussed – automatically enrolling seafarers and offshore workers into a workplace pension and the employer providing individuals with a waiting period notice – is estimated to be a net cost of £781 million over the 39 years from 2012 to 2050. The Equivalent Annual Net Cost to Business (EANCB) is therefore estimated to be £36 million.

Previous Impact Assessments have been based on firms captured within the Inter-Departmental Business Register (IDBR) and employees within those firms. The IDBR is largely compiled from VAT trader and PAYE employer information held by HMRC. Firms which are not registered for VAT and/or PAYE are not represented in the IDBR.

Table 0.3: Net Present Value and Equivalent Annual Net Cost to business (£ million)

	Net Present Value (£m)	Equivalent Annual Net Cost (£m)
Seafarers and offshore workers	-646	-30
Waiting period notice	-135	-6
Net Cost	**-781**	**-36**
Less…		
Seafarers and offshore workers (already accounted for)	-172	-8
Net Cost	**-609**	**-28**

Notes:
- Figures are expressed in 2011/12 base year.
- Costs are presented as negative numbers, benefits as positive numbers.

Representatives of employer and employee bodies from the offshore industry have informed the Department for Work and Pensions (DWP) that whilst most firms in the offshore industry are not physically present in Great Britain, a small number are. This means that a proportion of the costs for offshore workers have already been accounted for in previous Impact Assessments. From discussions with these stakeholders, we assume that proportion is 15 per cent.

Stakeholders representing employer and employee bodies in the shipping industry have noted that the majority of firms employing seafarers who would be ordinarily working in Great Britain would be

[3] Department for Work and Pensions modelling, based on participation estimates described in Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011

[4] Department for Work and Pensions modelling, based on participation estimates described in Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011 – Annex G

based in the UK. Again, based on discussions with stakeholders, we assume that the costs and benefits have already been calculated for two in three firms employing eligible seafarers.

A fuller explanation of the additional costs, not already accounted for is included in the summary of costs and benefits in Section 2. Removing these costs (to avoid double counting) reduces the NPV by £172 million which results in a net cost to business of £609 million over the period 2012 to 2050. The addition to the EANCB of the whole policy is therefore a cost of £28 million.

It should be noted that the additional costs of enrolling seafarers and offshore workers, not included in a previous Impact Assessment, fall on firms which are not registered for VAT and/or PAYE in Great Britain.

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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 Bill 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 Impact Assessment accompanies the consultation on the draft Workplace Pension Reform Legislation 2011. It includes a number of policies intended both to finalise details of the workplace pension reform policy and to implement the policy recommendations made by the independent Making Automatic Enrolment Work review[5]. Two proposals are discussed in detail in this Impact Assessment. They are:

- Clarifying how the workplace pension reforms will apply to seafarers and offshore workers.
- The content and timing of the waiting period notice that employers must provide to the worker if they choose to use a waiting period.

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[6].

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.

[5] Johnson P, Yeandle D and Boulding A, 2010, *Making automatic enrolment work – a review for the Department for Work and Pensions,* Parliamentary Command Paper Cm 7954.

[6] 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.*

- 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. 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 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[7] 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.

[7] A replacement rate measures income in retirement as a percentage of income before retirement.

- 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.

- The National Employment Savings Trust (NEST), a trust-based occupational pension scheme will be 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 require employers to 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 Bill 2011.

1.13 This Impact Assessment relates to the consultation on the draft Workplace Pension Reform Legislation 2011 and builds on the analysis presented in the previous Impact Assessments.

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[8] in order to minimise burdens associated with refunds. These changes are discussed in detail in the Government response to that consultation[9]. 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 the Department needed to return to the drawing board on this policy in order to ensure it is effective for business.

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[8] 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.

[9] DWP, 2009, The Pensions (Automatic Enrolment) Regulations 2009: Government Response to the Consultation on Regulations.

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 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, along side 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 Making Automatic Enrolment Work review was published in October 2010. It included a number of deregulatory changes to reduce the burden on business. These included: changes to the earnings threshold for eligibility for automatic enrolment and the qualifying earnings band on which contributions are paid; the introduction of an optional waiting period of up to three months before the automatic enrolment duty commences and simplification of the way an employer can certify that their pension scheme meets the necessary quality test.

1.21 The main elements from the Making Automatic Enrolment Work review have been addressed in the Pensions Bill 2011 and accompanying Impact Assessment. This Impact Assessment discusses extending the scope of the workplace pension reforms to include seafarers and offshore workers and sets out further detail of the content and timing of the waiting period notice. It also considers a number of minor or technical changes to enhance existing legislation.

1.22 The consultation on the draft Workplace Pension Reform Legislation 2011 will include the proposals discussed in this Impact Assessment.

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: Sequence and coverage of workplace pension reform legislation and consultation

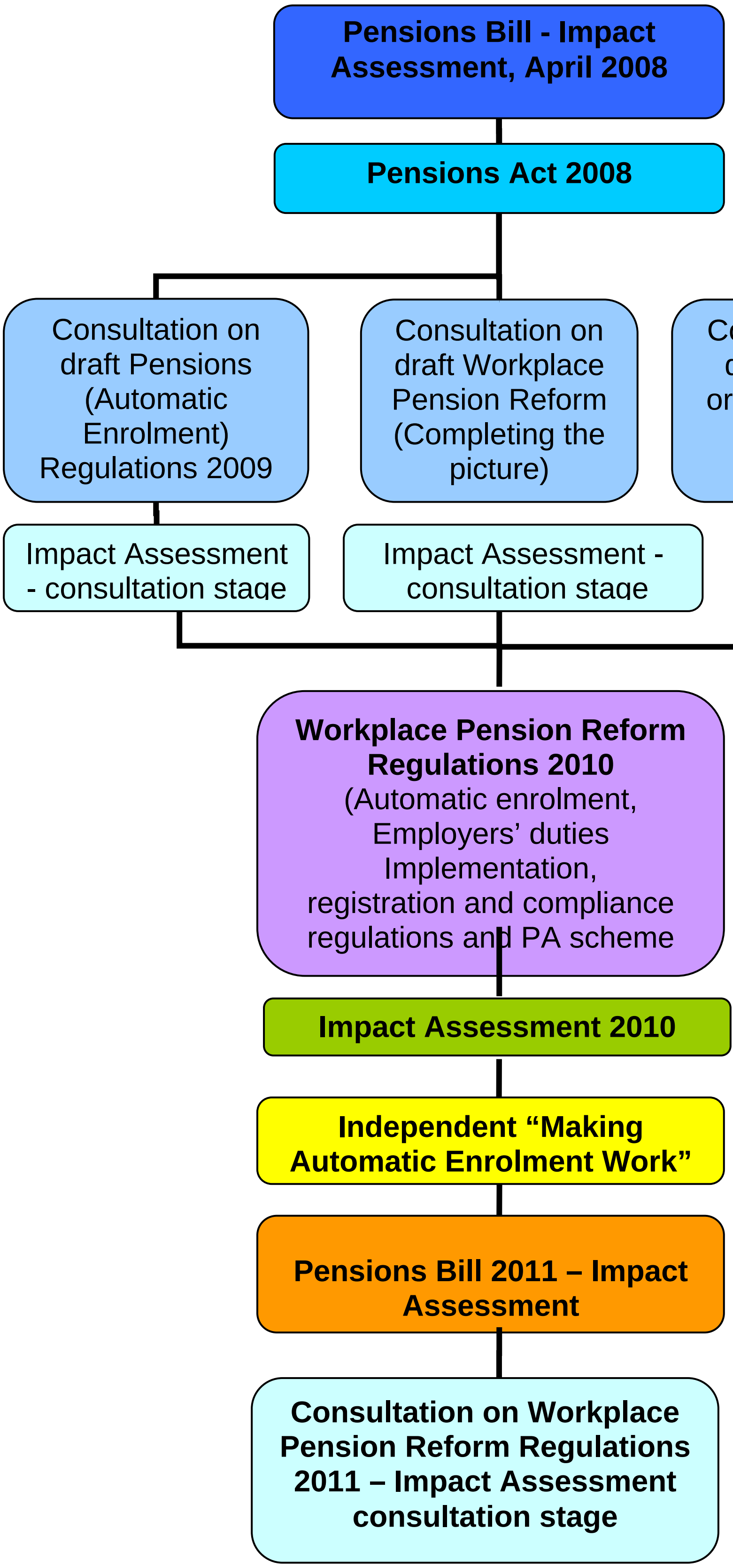

Figure 1.2: Summary of impacts and burdens

Changes to Pension Regulation	Impact on Individuals	Impact on Employers	Impact on pensions Industry	Impact on Government/ Exchequer	Regulatory burden on business
Bring offshore workers within the scope of automatic enrolment	Increases the number of individuals eligible for automatic enrolment by up to 34,000. Increases the number of individuals who expect to remain saving following automatic enrolment by up to 25,000.	Increases costs for employers. Estimated annual total contribution cost of £25 million and administration cost of up to £0.8 million in year one and up to £0.5 million annually thereafter.	Negligible.	Increase Exchequer costs. Estimated annual cost of £17 million in individual tax relief.	Increased burden for employers.
Bring seafarers within the scope of automatic enrolment	Increases the number of individuals eligible for automatic enrolment by up to 14,000. Increases the number of individuals who expect to remain saving following automatic enrolment by up to 10,000.	Increases costs for employers. Estimated annual total contribution cost of £7 million and administration cost of up to £0.5 million in year one and up to £0.2 million annually thereafter.	Negligible.	Increase Exchequer costs. Estimated annual cost of £3 million in individual tax relief.	Increased burden for employers.

Figure 1.2 (continued): Summary of impacts and burdens

Changes to Pension Regulation	Impact on Individuals	Impact on Employers	Impact on pensions Industry	Impact on Government/ Exchequer	Regulatory burden on business
Waiting period notice and timing	Gives individuals information about their right to opt in during the optional waiting period. This will be particularly beneficial for those who change jobs more frequently who do not wish to miss out on pension saving.	Increases costs for employers. Impact of regulations estimated to be £25 million in the first year, but part of potential savings of £280 million in contributions. Then estimated to be £4 million per year, but part of potential savings of £150 million per year in contributions.	Negligible.	None.	Increased burden for employers but part of a wider deregulatory package including savings in employer contributions not due during the waiting period.
Miscellaneous set of corrective amendments	Negligible.	Negligible.	Negligible.	Negligible.	Negligible.

Note: Costs in this table are steady state annual in 2011/12 prices unless otherwise stated.

Section 2: Using the powers in the 2008 Act to bring seafarers and offshore workers into automatic enrolment

2.1 This section sets out the proposed changes to the legislation to clarify how the workplace pension reforms will apply to seafarers and offshore workers and it considers the impacts for employers, individuals and the Government.

Current policy

2.2 Seafarers and offshore workers are currently excluded from automatic enrolment under sections 96 and 97 respectively of the Pensions Act 2008. Seafarers are people working in any capacity on board a ship or hovercraft. They include technical, engine and deck officers, people working in the catering and hotel trades, and general ratings (i.e. seamen who are not of officer rank) doing a variety of work. Offshore workers are people working on oil or gas extraction and related activities in the UK territorial sea, UK continental shelf, or a cross boundary field.

2.3 Seafarers and offshore workers were only excluded from the Pensions Act 2008 in order to allow time to fully consider a series of complex issues. In particular, how the policy fitted with international sea law and custom in respect of those working aboard foreign registered ships. The exclusion was not intended to be permanent and the intention was to bring seafarers and offshore workers within the scope of the workplace pension reforms, as far and as soon as was practical.

2.4 Section 96 of the Pensions Act 2008 provides an affirmative regulation making power to apply the automatic enrolment provisions to seafarers and Section 97 provides for an affirmative order in council to apply the automatic enrolment provisions for offshore workers.

Why consider change?

2.5 The legislation will ensure that seafarers and offshore workers are eligible for automatic enrolment into a workplace pension.

2.6 Seafarers in particular may benefit from gaining access to workplace pension saving through the automatic enrolment provisions as proportionately fewer seafarers save in a workplace pension than average. Ensuring seafarers and offshore workers are within the scope of automatic enrolment would increase the numbers in pension saving and enable them to build up private pension savings in order to increase their level of income in retirement.

Stakeholder views

2.7 The Department has sought information from key stakeholders. Representatives of industry and employer bodies included: the Chamber of Shipping, the Offshore Contractor's Association (OCA), the Caterer's Offshore Trade Association (COTA) and Oil and Gas UK. Representatives of individuals included the Rail and Maritime Union (RMT), Nautilus and Unite. Most stakeholders were broadly supportive of the policy intent to bring seafarers and offshore workers within the scope of the workplace pension reforms. Representatives of industry and employers were however concerned about the impact of the additional costs the reforms would bring to employers.

2.8 Those representing the offshore industry were concerned about the costs of enrolling short-term workers and how the costs would be shared if an individual was employed by more than one employer. They were also concerned about how employers might absorb the additional contribution costs. A representative of the shipping industry was concerned that the additional costs would affect profitability within the industry and whether that might lead to knock-on effects on the proportion of vessels flying the UK flag. This is discussed further in paragraph 2.73.

Which options were considered?

2.9 Two options were considered: bringing seafarers and offshore workers within the automatic enrolment provisions or excluding seafarers and offshore workers from the workplace pension reforms altogether.

2.10 The effect of excluding seafarers and offshore workers from the automatic enrolment provisions would be to deny eligible seafarers and offshore workers access to workplace pension saving under automatic enrolment by virtue of the industry that they currently work in. However, as the Department's earlier Impact Assessments have shown that the benefits of higher pension saving to individuals through consumption smoothing outweigh the costs associated with this policy.

Option chosen

2.11 The Government propose to treat seafarers and offshore workers in the same way as land based workers and bring them within the scope of the automatic enrolment provisions in Part 1 of the Pensions Act 2008 if they are working, or ordinarily work, in Great Britain under the worker's contract.

2.12 The ordinarily working element of the test is the same as that which applies to land based workers and would ultimately rest on case law. For a seafarer, that might include someone whose journey starts and ends in a domestic port, though there would be other cases where a seafarer could be considered ordinarily working in Great Britain. For an offshore worker, it might include someone who starts and ends their tour of duty on an oil rig on the UK continental shelf. As with land based workers, the location of the employer or agency would not be a determining factor, nor would the nationality or residency status of the worker, or in the case of a ship, where it is registered.

2.13 The seafarer or offshore worker will also have to meet the other eligibility tests that apply to land based workers, so they would be automatically enrolled if they are at least 22 years and below State Pension age and have earnings above the automatic enrolment trigger (£7,475 in 2011/12 earnings) from their main job[10].

[10]Share fisherman are excluded from these provisions as they are self-employed and thus not working under a worker's contract.

2.14 Annex 2 provides information about the processes employers must follow to comply with their duties.

Approach to analysing impacts

2.15 There is limited publicly available data on seafarers and offshore workers. This is because only small numbers of seafarers and offshore workers are captured in government surveys: the numbers are not sufficient to support detailed exploration of their circumstances. In addition, many employers of seafarers and offshore workers who would be eligible for automatic enrolment are based overseas and government administrative data sources only provide information on firms present in Great Britain for tax purposes.

2.16 In order to assess potential impacts as meaningfully as possible the Department has sought information from key stakeholders representing the shipping and offshore industries. The Department sought advice from representatives of trade, employer and employee bodies to better understand the nature of the industry and the workforce. Stakeholders have provided quantitative information based on large samples of their members which have helped to improve knowledge of the potential size of the eligible population and their characteristics. Where robust data does not exist, stakeholders have provided advice based on their expertise and knowledge of the industry.

2.17 Data from nationally representative surveys of individuals and employers has been used to inform assumptions underlying the estimates. It has only been used where sensible, as characteristics observed among the general working population may not adequately reflect the characteristics of seafarers and offshore workers. In addition, desk based research was conducted to gather further information.

2.18 Despite significant effort, there is still uncertainty around some key elements of the circumstances of seafarers and offshore workers and their employers.

2.19 As a result, the estimates are deliberately cautious. At this preliminary stage, estimates of new workplace pension membership arising from automatic enrolment and employer costs are presented at the upper end of the scale[11].

2.20 The assumptions and information underlying the estimates are outlined within the following sections. The Department intend to explicitly ask for additional information and evidence on the workforce and potential burdens to business in the consultation. This will enable DWP to ensure that the estimates of the costs and benefits of automatically enrolling seafarers and offshore workers into a workplace pension scheme are sufficiently robust.

2.21 The next section sets out the estimates of the numbers of seafarers and offshore workers eligible for automatic enrolment. It considers age, ‘ordinarily working’, average earnings, existing pension membership, and likely level of opt out. The number eligible is a key factor in calculating employer costs which follow.

[11] Cautiously estimating costs for employers at the upper-end of the scale has the knock-on effect of maximising benefits of higher pension saving to individuals.

Estimates of the numbers of seafarers and offshore workers eligible for automatic enrolment

Offshore workers

2.22 In 2009, there were around 51,000 offshore workers on the UK continental shelf[12]. This represents a peak in the size of the offshore workforce since Oil and Gas UK (an offshore industry employer's organisation) started collecting this data in 2006. The estimate of 51,000 offshore workers is the starting point for considering the potential size of the offshore workforce whom the Government propose to bring within the scope of the workplace pension reforms.

2.23 'Ordinarily working' in Great Britain is a key test of eligibility for automatic enrolment among seafarers and offshore workers. The starting assumption is that all offshore workers are 'ordinarily working' in Great Britain as they will start and end their journey to and from an offshore installation from a UK port. So, there will be an estimated 51,000 offshore workers 'ordinarily working' in Great Britain each year. This is likely to be a slight over-estimate as stakeholders have advised that a minority of the offshore workforce may start and end their journey from a European port and be resident outside of Great Britain.

2.24 The workplace pension reforms apply to employers of those aged between 22 years and State Pension age. The current assumption is that all eligible offshore workers would be of qualifying age. Survey information shows that around five per cent of the offshore workforce is aged less than 23 years and less than one per cent is aged 65 years or over[13] however the published information does not allow us to identify the size of the group aged from 22 years to State Pension age. Therefore, it is likely that a small proportion of the offshore workforce would be excluded from automatic enrolment into a workplace pension by virtue of their age. Consequently, the current estimate of those eligible is likely to be slightly higher than if those who were outside the qualifying age range were excluded.

2.25 All offshore workers are assumed to be employees under a 'worker's contract'. Stakeholders have advised that some offshore workers are self-employed however no information is currently available to estimate how many self-employed offshore workers there are. Therefore, this may represent a slight over-estimate on the numbers eligible.

2.26 Individuals will only be automatically enrolled once they reach the income tax personal threshold (£7,475 in 2011/12 earnings). It is very likely that all offshore workers would meet the requirements relating to qualifying earnings. The Offshore Contractor's Association provided average earnings from their nine largest members which revealed a significant premium for working offshore in relation to the average wage nationally.

2.27 Those already saving in a qualifying workplace pension scheme will not be automatically enrolled. It is estimated that around one in three (around 17,000) offshore workers will already be saving in a qualifying workplace pension scheme. This leaves around 34,000 offshore workers who would be eligible for automatic enrolment.

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[12] 2009 UKCS Workforce Demographics Report. Oil and Gas UK. The data is derived from the Vantage POB system which is the personnel tracking system used by the offshore industry covering all trips during the 2009 calendar year.

[13] UKCS Workforce Demographics Report. Oil and Gas UK.

2.28 This estimate is based on the degree of workplace pension saving among individuals nationally. Around one in three (34 per cent) of private sector employees were active members of workplace pension schemes in 2010[14]. This is consistent with the lower estimate provided anecdotally by stakeholders representing the offshore industry: they suggested that between 30 per cent and 50 per cent of offshore workers are members of a workplace pension scheme. Therefore the numbers of eligible offshore workers on the basis of existing pension membership presented here may also be over-estimated. A further assumption made on the advice of the industry representatives is that the industry wide pension schemes would most likely meet the qualifying scheme standards.

2.29 Individuals can choose to opt out of pension saving if they do not consider it the right time for them to save or for other reasons. It is estimated that around 8,000 offshore workers would exercise their right to opt out. This leaves around 25,000 offshore workers who would remain saving following automatic enrolment into a workplace pension scheme.

2.30 This is based on the expected levels of opt out nationally[15]. Around one in four eligible individuals say they would opt out of workplace pension saving after automatic enrolment. There is no information available to indicate likely opt out among offshore workers. Stakeholders representing the offshore industry suggest that opt out from workplace pension saving would be relatively high among offshore workers. In their view the vast majority of foreign nationals (who represent 15 per cent of the offshore workforce[16] and who are normally resident overseas) would opt out after automatic enrolment as well as those who already have their own personal pension arrangements or other financial plans. Therefore, the estimate of the numbers eligible on the basis of opt out behaviour may also be over-estimated.

Seafarers

2.31 In 2010, it was estimated that there were 27,800 UK seafarers active at sea[17]. This comprises 14,700 officers, 11,300 ratings and 1,800 officer trainees. The most recent estimate for the number of foreign nationals in the UK shipping industry is 57,600 in 2007[18] .

2.32 Seafaring is a global industry and not all seafarers will be ‘ordinarily working’ in Great Britain. Seafarers whose journey starts and ends from a domestic port would be considered as ‘ordinarily working’ in Great Britain. Seafarers who sail from a domestic port to a foreign port whose base is in Great Britain would also be considered as ‘ordinarily working’ in Great Britain.

2.33 There are estimated to be around 22,000 seafarers ‘ordinarily working’ in Great Britain each year. Ascertaining where seafarers routinely work is difficult but DWP has benefited from the advice of stakeholders representing the trade unions and shipping industry. Their views were informed by considering the patterns of employment, nature of work and typical journeys made by general ratings and officers in the course of their normal duties.

2.34 Stakeholders advise that the vast majority of UK ratings would be ‘ordinarily working’ in Great Britain, alongside just under half (45 per cent) of UK officers and a ‘few’ foreign nationals. Representatives from employee and employer bodies suggested that the vast majority of

[14] Annual Survey of Hours and Earnings 2010. Office for National Statistics.

[15] Bourne T, Shaw A and Butt S, 2010, *Individuals attitudes and likely reactions to the workplace pension reforms 2009*, DWP Research Report No 669.

[16] UKCS Workforce Demographics Report. Oil and Gas UK.

[17] Transport Statistics Bulletin: UK Seafarer Statistics 2010. Department for Transport.

[18] Oxford Economics. 2009. *The economic contribution of the UK shipping industry in 2007*.

foreign national seafarers would work aboard vessels on foreign journeys: either on short-sea or deep sea routes. These stakeholders indicated that only a small proportion of foreign national seafarers would normally meet the criteria for 'ordinarily working' in GB. There is no official data available on the number of foreign nationals 'ordinarily working' in GB. Taking the information provided by stakeholders into consideration, in the following analysis it is assumed that just below ten per cent of the foreign national seafarers would be ordinarily working in Great Britain.

2.35 It is assumed that all seafarers ordinarily working in Great Britain would meet the qualifying age related criteria and fall within the provisions of the reforms. While there is information available on the proportion of seafarers by age group it is not readily available in the age bands relevant to the workplace pension reforms. Therefore, slightly more seafarers are included than would otherwise be eligible on the basis of their age.

2.36 It is assumed that all eligible seafarers would also fall within the limits for qualifying earnings (earning at least £7,475 from main job in 2011/12 terms). There is no information currently available on the average earnings of seafarers. Stakeholders representing the unions suggested that those eligible would be likely to fall within the qualifying earnings band. However, they were not sure how far this would apply to foreign national seafarers.

2.37 It is estimated that around 8,000 seafarers will already be a member of a qualifying workplace pension scheme and will not be automatically enrolled. This leaves around 14,000 seafarers who would be eligible for automatic enrolment into a workplace pension scheme. This estimate is based on advice from the trade unions and is confirmed by industry representatives. Employee representatives have advised that around 20 per cent of UK seafarers are members of a workplace pension scheme and that 85 per cent of UK officers have a workplace pension scheme and that schemes are most likely to meet the qualifying criteria.

2.38 More than 3,000[19] eligible seafarers are assumed to exercise their right to opt out. This leaves an estimate of around 10,000[20] seafarers who would remain saving following automatic enrolment into a workplace pension scheme. In common with the offshore workforce, there is no information to reliably assess whether opt out would be higher in the shipping industry so the national expected rate of opt out has been used.

Summary of the numbers of seafarers and offshore workers eligible for automatic enrolment

2.39 In summary, it is estimated that around 34,000 offshore workers will be eligible for automatic enrolment of which 25,000 will newly enter workplace pension saving. The corresponding figures for seafarers are around 14,000 eligible of which 10,000 would remain in pension saving after automatic enrolment. These numbers are small compared with the estimates of 9-10 million eligible for automatic enrolment and 5-8 million newly saving or saving more in workplace pension schemes[21].

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[19] This figure has been rounded to the nearest 1,000.

[20] This figure has been rounded to the nearest 1,000.

[21] Pensions Bill 2011 impacts - Workplace Pension Reform. Department for Work and Pensions, January 2011 – Annex B

Costs and benefits

2.40 This section covers the costs and benefits to employers, workers and the Government. It uses estimates of the number of eligible individuals and average earnings to estimate pension contribution costs. It then considers the level of familiarity that employers of eligible seafarers and offshore workers have in providing pensions in order to estimate administrative costs. Adding these costs together provides an estimate of the cost to business of automatically enrolling seafarers and offshore workers into a workplace pension.

Impact on employers

Employer contribution costs

2.41 The workplace pension reforms will require employers to automatically enrol eligible jobholders that 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.

2.42 The proposal will bring new costs to employers. If employers were to make the minimum three per cent contribution for all eligible jobholders, after accounting for those who opt out the additional costs they would face are estimated at around £25 million for employers of offshore workers and £7 million for employers of seafarers (in 2011/12 earnings terms) once contributions have been fully phased in.

Table 2.1: Estimated total annual cost to employers of eligible offshore workers and seafarers of making contributions of three per cent

	Estimated total annual cost (£ million)
Employers of…	
Offshore workers	25
Seafarers	7

Notes:
- Figures are expressed in 2011/12 earning terms.

2.43 Employer contribution costs will vary according to the number of new members and how much they earn. Offshore workers are paid more than the average worker in the UK and this is reflected in the higher contribution costs for employers of offshore workers. The offshore industry have supplied earnings data based on a sample of large firms which indicates that more than 95 per cent of workers (in those firms) would earn in excess of the upper earnings limit of £38,185 in 2010/11 earnings terms. This means that employers of offshore workers would be contributing at least the minimum three per cent on *all* earnings within the qualifying band for contributions (between £5,715 and £38,185 in 2010/11 earnings) for the overwhelming majority of their eligible workers.

2.44 On average, an employer would face annual contribution costs of just under £1,000 per eligible offshore worker and around £700 per eligible seafarer[22]. The Department is unable to provide a breakdown by the size of firm. Stakeholders have advised that there are between 100 and 150 employers of offshore workers and the Chamber of Shipping also has more than 100 members but how many are small, medium and large firms is not known. The offshore and

[22] The cost per eligible individual is calculated as the number of eligible individuals multiplied by a three per cent employer contribution of qualifying earnings.

shipping industry may be more consolidated among larger firms than businesses are generally given the nature of the work they do.

2.45 The employer costs of making additional minimum contributions may be over-estimated for offshore workers as workers in larger firms generally earn more on average than those who work in smaller firms[23] and the information supplied by the offshore industry is based on a sample of large firms.

2.46 There is no robust information currently available on the earnings of seafarers. Without that it is hard to know how much an officer or general rating might typically earn per year. It is assumed that workers on ships at sea are full-time employees and the amount of median gross earnings nationally for full-time men (£28,100) and women (around £22,500)[24] has been used to calculate qualifying earnings and applied to the expected number of male and female[25] seafarers likely to be automatically enrolled. It is assumed that all officers earn in excess of the upper earnings limit of £38,185 in 2010/11 earnings terms. The estimate of £7 million minimum contribution cost to employers of seafarers may be under-estimated if general ratings earn significantly more than the national average.

2.47 The scale of costs that different employers face will depend on the employer's experience of pension provision: the coverage and level of take-up within their workforce. Employers who already make contributions and have high levels of take-up will face proportionally lower additional costs whereas employers who make no or small contributions currently or have low levels of take up will have to start paying contributions for a larger proportion of their workforce for the first time and will incur higher costs. Stakeholders have advised that workplace pension provision is widespread across the industry and this experience might help employers mitigate costs.

2.48 The Pensions Act 2011 contains a number of measures to make automatic enrolment easier for all employers and to help them cope with the cost of complying with their duties under the reforms.

2.49 Employers of offshore workers and seafarers will benefit from these easements. They may particularly benefit from the optional waiting period of up to three months. This will reduce the costs for those who are only with the employer for a short period of time. Stakeholders from the offshore industry have advised that a significant proportion of the offshore workforce is considered 'non-core' and that some of this 'non-core' group may be employed in seasonal work. Therefore, employers who choose to use the optional waiting period would benefit from enrolling and un-enrolling fewer workers. The costs presented in Table 2.1 do not take into account the potential savings of using an optional waiting period of up to three months.

2.50 Other changes introduced in the Pensions Bill 2011 to lessen the regulatory and administrative burden on business include increasing the earnings threshold for automatic enrolment and enabling flexibility around the re-enrolment date.

2.51 The current legislation already contains a number of significant easements to help employers manage the burden. The automatic enrolment duties are due to be staged in over four years from October 2012, starting with the largest employers. The main tranches of small employers

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23 *Making automatic enrolment work: a review for the Department of Work and Pensions*. 2010. Department for Work and Pensions.

24 Annual Survey of Hours and Earnings 2010. Office for National Statistics. http://www.statistics.gov.uk/pdfdir/ashe1210.pdf

25 Transport Statistics Bulletin: UK Seafarer Statistics 2010. Department for Transport.

(with fewer than 50 employees) are not due to begin automatic enrolment until August 2014. As well as employers being staged in over time, contributions are being phased in. From October 2012 until September 2016 minimum contributions will be two per cent, with at least one per cent coming from the employer. Once all employers have been staged into the duty, minimum contributions will increase to five per cent with at least two per cent coming from the employer. This will last one year from October 2016 to September 2017. From October 2017, minimum contributions will be eight per cent, with at least three per cent coming from the employer.

2.52 The effect of staging and phasing means that the annual contribution costs for all firms will be lower in the years between 2012/13 and 2017/18 than they are estimated to be in steady state (from 2018/19).

Labour market adjustment

2.53 It is likely that the labour market will adjust in the long term to take account of the additional cost of labour. However, there is no evidence to suggest how this would happen, how quickly or how complete that adjustment might be. The effect of such an adjustment would be that employer's contribution costs would be expected to fall dramatically over time. In the absence of suitable data the effects of a labour market adjustment on cost estimates have not yet been considered. This is consistent with the methodology in the previous Impact Assessments of the Workplace Pension Reform Regulations. If information becomes available in the future, the effect of a labour market adjustment could be taken into account.

Employer administrative costs

2.54 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.

2.55 The additional administration costs to employers of complying with the duty are estimated here. This work follows the standard cost model methodology recommended by the Better Regulation Executive. The fundamental concept and unit of measurement is a normally efficient business and it is assumed that all employers will comply with the legislation. The methodology has been explained in full in Annex G of the Workplace Pension Reform Regulations Impact Assessment published in January 2010[26]. The work here is consistent with that approach.

2.56 This means that in the absence of other information, it is assumed that the administrative processes would be carried out in the same way for employers of offshore workers and seafarers. Stakeholders have indicated that employers would also have land based workers so these employers may be better prepared to deal with the start-up administrative processes if they are required to do so for their land based workers.

2.57 Because the Department is unsure of the distribution of firms by size and the nature of pension provision among different sized firms, sensitivity testing has been carried out by calculating costs assuming that all firms are micro (which would involve the greatest cost) and assuming all firms are large (which would have the least cost).

[26] Workplace Pension Reform Regulations Impact Assessment. 2010. Department for Work and Pensions. Annex G. http://www.dwp.gov.uk/docs/wpr-ia.pdf

2.58 Table 2.2 shows the estimated administrative costs for employers in Year 1 and on an ongoing basis (assuming all are micro firms). Year 1 costs for all offshore firms are estimated to be no more than £0.8 million and year 1 costs for firms enrolling seafarers are estimated to be no more than £0.5 million. The annual ongoing costs are estimated to be up to £0.5 million for offshore firms and up to £0.2 million for firms of eligible seafarers.

Table 2.2: Estimated total annual administrative cost in Year 1 and ongoing years

	Estimated total administration cost (£ million)	
	Year 1	Ongoing Years
Employers of…		
Offshore workers	up to 0.8	up to 0.5
Seafarers	up to 0.5	up to 0.2

Notes:

- Figures are expressed in 2011/12 earning terms.

2.59 Administrative costs by firm size[27] or per employee cannot be estimated specifically for the employers of interest here. The average administrative cost per employee across all large firms has previously been estimated as £20 in Year 1 and £3 in future years. The equivalent figures for an employee in a small firm are £50 in Year 1 and £15 in later years. Costs for an employee in a micro firm are £130 in Year 1 and £50 in ongoing years[28].

2.60 Stakeholders have indicated that most firms employing offshore workers and seafarers would have land based staff and that workplace pension provision across the industry is widespread. Therefore many of these firms will already have an automatic enrolment duty for some of their other employees and they are likely to have some experience of pensions.

2.61 Representatives of employer bodies were concerned about the costs of enrolling short-term workers. The introduction of an optional waiting period of up to three months means that employers would not need to enrol and make contributions for these workers. While an unlikely scenario, if, in the course of a year, the whole workforce joined and left an employer, the total ongoing administrative costs would increase by up to £0.2 million for employers of offshore workers and by up to £0.1 million for employers of seafarers. The administrative costs are small in relation to the benefits to individuals and society. And even increasing these to the extent of this unlikely scenario would still not exceed that increased social welfare.

2.62 Enrolling short-term workers means they can start or continue workplace pension saving at a time when they have higher incomes and smooth their consumption over their lifetime so that their consumption is worth more to them in retirement, when they are able to consume less. For these workers, the first pound saved will give the highest value in terms of consumption smoothing and that value is greater to higher earners. Therefore, there is a clear benefit to individuals and social welfare through automatically enrolling short-term workers[29].

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[27] Employer size is defined as large: 250+ employees; medium: 50 – 249 employees; small: 5 – 49 employees; micro: 1 – 4 employees.

[28] Workplace Pension Reform Regulations Impact Assessment. 2010. Department for Work and Pensions.

[29] Workplace Pension Reform Regulations Impact Assessment. 2010. Department for Work and Pensions. Annex H. http://www.dwp.gov.uk/docs/wpr-ia.pdf

2.63 In summary, the total annual cost to business is estimated to be £26 million for employers of eligible offshore workers and £8 million for employers of seafarers. This includes the contribution cost and ongoing administration cost.

Impact on individuals

2.64 The proposals will result in an increase in the number of individuals benefiting from pension saving.

Individual minimum contribution costs

2.65 If offshore workers and seafarers participate in workplace pension schemes and make the minimum employee contribution on a band earnings between £5,715 and £38,185 (in 2010/11 earning terms), the value of additional annual contributions that individuals make are estimated at £25 million for offshore workers and £10 million for seafarers (2011/12 earnings terms) once contributions have been fully phased in.

Table 2.3: Estimated total annual cost to eligible employees of making minimum contributions

	Estimated total annual cost (£ million)
Employees	
Offshore workers	25
Seafarers	10

Notes:
- Figures are expressed in 2011/12 earning terms.

2.66 The extent to which offshore workers and seafarers benefit will depend on their propensity to stay in workplace pension saving after automatic enrolment. Offshore workers are well paid on average and the employer representatives consider that many will already have financial plans in place for their retirement so that they may be disinclined to remain in after automatic enrolment. This may also be the case for officers. General ratings are within the target group of low to moderate earners who will benefit from increased pension saving.

Higher savings into pensions

2.67 Each year there will be around £90 million in additional pension saving through automatically enrolling offshore workers and seafarers (£70 million for offshore workers and £20 million for seafarers). This reflects the sum of individual and employer contributions plus government tax relief.

2.68 The increase in pension saving will be associated with tens of thousands 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). This represents a welfare gain to society. The benefits from these proposals cannot be separately identified from the overall gains of the reform package, which is estimated at £40-60 billion by 2050[30]. This amount does not represent a financial transfer but represents the value to individuals from transferring income from more affluent times to retirement.

[30] Workplace Pension Reform Regulations Impact Assessment. 2010. Department for Work and Pensions.

Impact on Government

Government contribution costs (tax relief)

2.69 Individuals receive tax relief on pension contributions[31], but pay tax on pension income – so increased pension saving will increase the amount of tax relief granted now, but in future will increase the tax paid by individuals on their pension income.

2.70 Tax relief on pension contributions is given at the individuals' marginal rate of taxation. Therefore, for those seafarers who become automatically enrolled, most of the extra tax relief will be given at the basic rate however, for offshore workers who become automatically enrolled and stay saving in a workplace pension most of the extra tax relief will be given at the higher rate. Because of this, the annual cost of individual tax relief is proportionately higher for offshore workers than seafarers.

Table 2.4: Estimated total annual cost due to Government from lost tax relief (from eligible employees)

	Estimated total annual cost of individual tax relief (£ million)
From eligible…	
Offshore workers	17
Seafarers	3

Notes:
- Figures are expressed in 2011/12 earning terms.

2.71 The additional annual cost to the Exchequer of tax relief on individuals' pension contributions is estimated to be around £17 million for offshore workers and £3 million for seafarers in 2011/12 earning terms once contributions have been fully phased in[32,33]. This compares to the £5.7 billion granted in tax relief on individuals' pension contributions in 2009/10[34]. Some of this extra tax relief will be offset by higher tax receipts from future pensioner incomes.

Exchequer costs

2.72 The overall cost to the Exchequer of the workplace pension reforms is estimated to be £2 billion each year once contributions are fully phased in. There is likely to be a very small cost to the Exchequer through automatically enrolling seafarers and offshore workers but this is unlikely to alter the overall cost to the Exchequer significantly. Stakeholders have advised that many employers of offshore workers and seafarers have no physical presence in Great Britain and do not operate PAYE schemes therefore these employers' exposure to income tax, National Insurance contributions and corporation tax will be less than average and thus the consequent impacts for the Exchequer on tax foregone, are considered to be small.

Impact on the shipping industry

2.73 The proposals to automatically enrol seafarers are flag-blind. They depend on where the seafarer ordinarily works, their age and earnings and not on which country the vessel they

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[31] Individuals also receive tax relief on pension fund investment returns, but the impact of this is not considered here.

[32] DWP modelling based on data from the Employers Pension Provision Survey 2007 and the Annual Survey of Hours and Earnings (ASHE) 2007. Figures are expressed in 2009/10 prices.

[33] If eligible workers are not UK tax payers they will not be entitled to UK tax relief. These costs would then become costs to the individual.

[34] See: http://www.hmrc.gov.uk/stats/pensions/table7-9.pdf accessed on 7 April 2011.

work on is registered. The shipping industry was keen to avoid any approach that might increase the risk that vessels might transfer their flag to another country, than that of the UK. However, DWP have no basis for considering that there would be such an impact as all vessels, no matter the country of registration, will be required to automatically enrol their eligible seafarers into a workplace pension scheme.

Summary of costs and benefits

2.74 Table 2.5 shows the transfer costs and benefits of bringing seafarers and offshore workers within the scope of automatic enrolment. Overall, there is no net benefit from the proposal. The average £36 million increase in individuals' pension savings each year is balanced against the increased expenditure of £33 million on average in contribution costs from employers and an increase in government expenditure through tax relief of £15 million on average. There is a 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 2.5: Estimated transfer costs and benefits arising from bringing seafarers and offshore workers within the scope of automatic enrolment (£ million)

	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
Individuals							
Contribution Costs	-36	0	-11	-30	-36	-44	-53
Savings into private pensions	84	0	28	69	84	102	124
Net benefit	**48**	**0**	**17**	**40**	**48**	**59**	**71**
Employers							
Contributions Costs	-33	0	-11	-28	-34	-41	-50
Government (income tax relief)							
Contribution Costs	-15	0	-6	-12	-15	-18	-22
Total							
Net Benefit	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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. The distribution of these costs will depend on how employers manage these costs and over what time period.
- Costs are presented as negative numbers, benefits as positive numbers.
- Information on the staging of employers is not currently available for seafarers and offshore workers and so it is assumed that the duties begin in 2012. The phasing of contributions is accounted for.
- Higher savings into private pensions is the sum of tax relief, employer contribution and individual contribution costs.

2.75 Table 2.6 shows a resource cost to employers of around £1.0 million on average each year. This reflects the costs that employers will incur in administering new members in their schemes.

Table 2.6: Estimated resource costs arising from bringing seafarers and offshore workers within the scope of automatic enrolment (£ million)

	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
Employer administrative costs	-1.0	-0.4	-0.8	-0.7	-0.9	-1.2	-1.5

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.
- All figures rounded to the nearest £0.1 million.
- Costs are presented as negative numbers, benefits as positive numbers.
- Information on the staging of employers is not currently available for seafarers and offshore workers and so it is assumed that the duties apply from 2012.

Costs and benefits already counted

2.76 Previous Impact Assessments have been based on firms captured within the Inter-Departmental Business Register (IDBR) and employees within those firms. The IDBR is largely compiled from VAT trader and PAYE employer information held by HMRC. Firms which are not registered for VAT and/or PAYE are not represented in the IDBR.

2.77 Representatives of employer and employee bodies from the offshore industry have informed DWP that whilst most firms in the offshore industry are not physically present in Great Britain, a small number are. This means that a proportion of the costs for offshore workers have already been accounted for in previous Impact Assessments. From discussions with these stakeholders, it is assumed that proportion is 15 per cent.

2.78 Stakeholders representing employer and employee bodies in the shipping industry have noted that the majority of firms employing seafarers who would be ordinarily working in Great Britain would be based in the UK. Again, based on discussions with stakeholders, it is assumed that the costs and benefits have already been calculated for two in three firms employing eligible seafarers.

2.79 Table 2.7 shows only those transfer costs and benefits which have not previously been accounted for. Table 2.8 shows only those administrative costs which have not previously been accounted for.

Table 2.7: Estimated transfer costs and benefits arising from bringing seafarers and offshore workers within the scope of automatic enrolment, excluding costs already accounted for (£ million)							
	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
Individuals							
Contribution Costs	-25	0	-8	-21	-26	-31	-38
Savings into private pensions	61	0	21	50	61	74	90
Net benefit	**36**	**0**	**13**	**29**	**36**	**43**	**52**
Employers							
Contributions Costs	-25	0	-8	-20	-25	-30	-36
Government (income tax relief)							
Contribution Costs	-11	0	-5	-9	-11	-13	-16
Total							
Net Benefit	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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. The distribution of these costs will depend on how employers manage these costs and over what time period.
- Costs are presented as negative numbers, benefits as positive numbers.
- Information on the staging of employers is not currently available for seafarers and offshore workers and so it is assumed that the duties begin in 2012. The phasing of contributions is accounted for.
- Higher savings into private pension is the sum of tax relief, employer contribution and individual contribution costs.

Table 2.8: Estimated resource costs arising from bringing seafarers and offshore workers within the scope of automatic enrolment, excluding costs already accounted for (£ million)

	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
Employer administrative costs	-0.7	-0.4	-0.7	-0.5	-0.7	-0.8	-1.1

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.
- All figures rounded to the nearest £0.1 million.
- Costs are presented as negative numbers, benefits as positive numbers.
- Information on the staging of employers is not currently available for seafarers and offshore workers and so it is assumed that the duties apply from 2012.

Cost to business for One in, One-out

2.80 The costs to business from including seafarers and offshore workers within the scope of automatic enrolment include the administrative costs of automatically enrolling these individuals along with the ongoing administration and the cost of the employer contributions for those individuals who do not opt out.

2.81 The Net Present Value (NPV) cost to business of automatically enrolling seafarers and offshore workers is estimated to be £646 million over the 39 year time period. This gives an Equivalent Annual Net Cost to Business (EANCB) of £30 million.

2.82 This Impact Assessment assesses the entire cost of bringing seafarers and offshore workers within the automatic enrolment provisions. However, as described above, a proportion of this cost was included in previous Impact Assessments, due to the nature of the data sources used. Removing these costs included in the earlier Impact Assessment (to avoid double counting) reduces the NPV by £172 million to £474 million over the 39 year time period. The resulting net EANCB is £22 million.

2.83 It should be noted that the additional costs of enrolling seafarers and offshore workers, not included in a previous Impact Assessment, fall on firms which are not registered for VAT and/or PAYE in Great Britain.

Section 3: Impact of waiting period notice and timing

Background

3.1 The Coalition Government commissioned the Making Automatic Enrolment Work review in order to test the automatic enrolment policy and to ensure that it struck an appropriate balance between costs and benefits to individuals, employers and the Government. The outcome of the review included a package of deregulatory measures. These included:

- Increasing the earnings threshold at which an individual is automatically enrolled, aligning with the income tax personal allowance.
- Introducing an optional waiting period of up to three months before an employee needs to be automatically enrolled into a workplace pension scheme. Workers can, however, opt in during the waiting period.
- Introducing flexibility to a number of areas of the automatic enrolment process in order to ease the burden on employers.

3.2 The findings of the review were accepted by the Government and the Pensions Bill 2011 introduced legislation to give effect to these recommendations. Total savings for employers in steady state were estimated to be £170 million per year in contributions and £6 million per year in administration costs.

3.3 The Pensions Bill 2011 requires the employer to issue a waiting period notice if they choose to use a waiting period. These regulations enable the waiting period to work in practice, setting out the content of an information notice about the waiting period, the right to opt in and how quickly an employer must give the waiting period notice to a worker. The total cost to employers of administering the waiting period notice is estimated to be £25 million in the first year and then £4 million per year thereafter. This is part of wider deregulatory package that includes savings for employers from the introduction of a waiting period of up to three months. These savings to employers are potentially up to £280 million[35] in contributions in the first year and £150 million per year in contributions thereafter[36].

Stakeholder views

3.4 Employer and industry groups have long been concerned about the value of automatically enrolling short term workers and so they overwhelmingly welcomed the regulatory easement and flexibility that the introduction of a waiting period brought to the process. They were concerned that the process around the worker's right to opt in during the waiting period is as straightforward as possible.

3.5 Consumer groups were generally opposed to individuals having a waiting period before being automatically enrolled, but were reassured by the fact that the regulations will require employers to make jobholders aware of their right to opt in.

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[35] Department for Work and Pensions modelling, based on participation estimates described in Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011 – Annex G

[36] Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011

Which options were considered?

3.6 In order to balance the easement that the optional waiting period brings to employers against the risk to individuals' savings, workers will have the right to opt in to a qualifying scheme during the waiting period. The waiting period notice will ensure that individuals understand what is happening to them in the waiting period. This will help maintain the broad-based consensus around the reforms which is crucial to achieving a stable and long lasting system of workplace pensions in the UK.

3.7 The introduction of an optional waiting period of up to three months is deregulatory for employers, enabling them to avoid automatically enrolling short term workers and avoiding three months of contribution costs for jobholders who decide to remain in workplace pension saving.

3.8 Three options were considered for the timing of the notice: the first day, the first week and the first month. Providing the notice on the first day of employment was deemed to be too rigid a requirement and therefore inflexible and burdensome for employers. The first month was considered too lengthy as individuals would need to receive the information quickly in order for opt in within the three month waiting period to be a genuine possibility. The period of one week was therefore chosen to balance these competing priorities.

Option chosen

3.9 The Government is proposing that an employer will be required to provide information about the worker's new automatic enrolment date and their right to opt in within a period of one week starting from the day after the beginning of the waiting period.

3.10 There will be flexibility for employers to provide information relevant to enrolment at the same time as they provide information on the waiting period, but within the waiting period one week deadline. This will be particularly helpful to employers if they choose to use a short waiting period.

3.11 At the same time, the employer will be able to provide two separate information pulses if they wish – one for waiting periods by the one week deadline, and one for enrolment within a period of one month beginning with the automatic enrolment date (as now).

3.12 The processes following the automatic enrolment date remain the same. The processes allowing opt in also remain the same, regardless of whether or not an employer uses a waiting period, i.e. opt in will take effect from the first day of the following pay reference period after the employer receives an opt in notice from the employee.

3.13 For employers who choose not to use a waiting period, there will be no change to the content of the regulations in respect of the automatic enrolment process, or requirements around provision of opt in information.

3.14 The waiting period policy has been designed to keep employer burden to a minimum. Therefore, employers will not be required to check an individual worker's eligibility for automatic enrolment before using a waiting period. They will do this at the end of the waiting period (but will need to monitor eligibility of existing employees going forward).

3.15 This less burdensome process means that an employer will not be required to provide tailored information to each worker around whether they are an eligible jobholder, a jobholder with qualifying earnings or a worker without qualifying earnings. Therefore, the employer will only be required to provide a generic waiting period notice to all workers. This generic notice will contain information which will allow an individual to self-identify which category of person they fall into, and which information contained in the notice applies to them, in order to understand their particular rights.

3.16 At the end of the waiting period, where a worker is eligible for automatic enrolment, the employer will automatically enrol them. If, at the end of a waiting period, a worker is not eligible, the employer will not be required to take any further action (apart from tracking jobholder status going forward) until the worker does satisfy the eligibility criteria, or if the individual makes a request to opt in.

3.17 Where the employer identifies that an existing worker becomes eligible for automatic enrolment, the employer may use a waiting period of up to three months. Where an employer chooses to do this, a waiting period information notice must be issued to the newly eligible jobholder. Unlike the generic notice issued to all workers at the employer's staging date and to new employees from their first day of employment, the employer must tailor this notice to the individual, specifying, for example, that they are a jobholder with qualifying earnings and will be automatically enrolled into the employer's scheme on the day after the last day of the waiting period if their circumstances remain the same.

3.18 The information which an employer has to provide both in the generic and tailored notice is prescribed in regulations. We also intend to provide employers with a template for both forms of notice.

Costs and benefits

Impact on employers

3.19 Employers will be able to use an optional waiting period to defer automatic enrolment by up to three months. This will allow employers to:

- avoid automatically enrolling short term workers who leave soon after starting work;
- align the automatic enrolment process with existing processes, such as payroll timings, avoiding part-period calculations of contributions; and
- stagger automatic enrolment of a large workforce (during staging).

3.20 Now that the waiting period has been incorporated into the automatic enrolment process, it is possible to see where the burdens are additional to those already accounted for. The employer administrative cost of automatic enrolment and the methodology behind the calculations is set out in Annex G of the Workplace Pension Reform Regulations Impact Assessment 2010[37]. Following this methodology, the cost of providing an additional notice is estimated to be £25

[37] Workplace Pension Reform Regulations Impact Assessment. 2010. Department for Work and Pensions. Annex G. http://www.dwp.gov.uk/docs/wpr-ia.pdf

million in the first year. This compares with savings of up to £280 million[38] in contributions for those employees who do not opt out.

3.21 The administrative cost and the contribution saving is higher in the first year as it includes the enrolment of the stock of individuals who are not currently members of a pension scheme[39]. The contribution saving takes account of the fact that employer contributions are only one per cent of qualifying earnings at this time due to phasing[40]. In each year thereafter, it is estimated that the cost of providing waiting period notices will be around £4 million, compared with savings of up to £150 million in contributions for those employees who do not opt out[41].

3.22 Table 3.1 shows estimates of the total administrative cost to firms of providing a waiting period notice. The overall costs are larger for large firms and smaller for micro firms. The costs for small firms reflect the estimated number of waiting period notices expected to be issued (see Table 3.3).

Table 3.1: Total employer administrative cost of waiting period notice, by firm size (£ million)

Size of firm	Year 1 cost	Ongoing cost in future years
Large	9	2
Medium	4	1
Small	8	1
Micro	4	1
Total Costs	25	4

Notes:

- Source: DWP modelling.
- Figures are expressed in 2011/12 earnings terms and may not sum due to rounding.
- Costs in Year 1 include includes one-off costs and the ongoing cost for that year.
- Costs of re-enrolment and re-registration which only occurs every three years have been divided by three.
- Micro firms are defined as those with fewer than 5 employees: small firms have at least 5 employees but less than 50, medium firms have at least 50 but less than 250 employees and large firms have at least 250 employees.

3.23 The average costs are relatively low in comparison to the value of employer contributions saved through opting to use a waiting period of up to three months. In the first year the administrative cost of providing a waiting period notice is estimated to be £9 million for large firms, £4 million for medium firms, £8 million for small firms and £4 million for micro firms. This is compared with estimated savings in contributions of £105 million for large firms, £52 million for medium firms, £89 million for small firms and £32 million for micro firms in contributions for those employees who do not opt out[42].

3.24 In each year thereafter the cost of providing a waiting period notice is £2 million for large firms and £1 million for smaller firms. The corresponding annual contribution savings are £60 million

[38] Department for Work and Pensions modelling, based on participation estimates described in Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011 – Annex G

[39] This assumes that all employers choose to use the full 3 month waiting period for all jobholders who need to be automatically enrolled.

[40] The required employer contributions are 1 per cent of qualifying earnings from 2012, then 2 per cent from October 2016, reaching 3 per cent from October 2017.

[41] Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011

[42] Department for Work and Pensions modelling, based on participation estimates described in Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011 – Annex G. The contribution saving takes account of the fact that employer contributions are only one per cent of qualifying earnings at this time due to phasing.

for large firms, £20 million for medium firms, £40 million for small firms and £20 million for micro firms. These are the savings each year in employer contributions for those employees who do not opt out, once contributions are fully phased in[43].

3.25 Table 3.2 shows the number of firms of each size and an average cost per firm of providing a waiting period notice. This shows that the average costs are greatest for larger firms and lowest for micro and small firms.

Table 3.2: Average administrative cost of waiting period notice, by firm size

Size of firm	Number of firms	Year 1 cost (£)	Ongoing cost in future years (£)
Large	7,500	1,000	200
Medium	32,000	100	20
Small	422,000	20	4
Micro	768,000	5	1
All firms	1,230,000*	20**	4**

Notes:
- Source: DWP modelling.
- Figures are expressed in 2011/12 earnings terms and may not sum due to rounding.
- Figures less than £100 are rounded to the nearest £10 or £1 as appropriate and may not sum due to rounding.
- Micro firms are defined as those with fewer than 5 employees: small firms have at least 5 employees but less than 50, medium firms have at least 50 but less than 250 employees and large firms have at least 250 employees.
- * Total number of projected firms in 2012.
- **Refers to the average administrative cost.

3.26 Table 3.3 shows the average cost per waiting period notice within firms of each size. The cost of providing a waiting period notice ranges from £1.80 for a large firm to £2.40 for a micro firm. The number of waiting period notices in Year one relates to the automatic enrolment of the stock of eligible jobholders, not currently in a workplace pension as well as the flow in that first year.

Table 3.3: Average administrative cost per employee of waiting period notice, by firm size

	Number of waiting period notices		
Size of firm	Year 1	Ongoing years	Cost (£) per waiting period notice
Large	4,907,000	863,000	1.80
Medium	2,170,000	382,000	1.80
Small	3,817,000	672,000	2.20
Micro	1,566,000	275,000	2.40
All firms	12,460,000	2,192,000	2.00

Notes:
- Source: DWP modelling.
- Figures are expressed in 2011/12 earnings terms and may not sum due to rounding.
- Figures are rounded to the nearest 10 pence as appropriate and may not sum due to rounding.

[43] Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011

- Micro firms are defined as those with fewer than 5 employees: small firms have at least 5 employees but less than 50, medium firms have at least 50 but less than 250 employees and large firms have at least 250 employees.

3.27 For a median earner, earning about £25,900, the minimum employer contribution would be more than £50 per month, so the saving to the employer from using the waiting period and providing the waiting period notice is potentially around £149 (in 2011/12 earnings)[44].

Impact on individuals

3.28 The Pensions Bill 2011 Impact Assessment set out the impact of the introduction of the waiting period on individuals and the potential impact on savings levels. An optional waiting period of up to three months will reduce the number of individuals who are automatically enrolled on any particular day by up to 0.5 million individuals. It will particularly affect young people, who are likely to move jobs relatively frequently.

3.29 Mindful of this potentially significant impact on individuals, the review team recommended that this be mitigated by allowing individuals to opt in to pension saving during the waiting period.

3.30 On average, analysis suggests that individuals have 11 different labour market interactions during their lifetime. On that basis, a waiting period of up to three months could reduce an individual's accumulated saving by up to three years, which is equivalent to a seven per cent reduction in pension funds[45].

3.31 For some individuals, such as those who remain on short-term contracts throughout their lives, the impact could be more significant. For individuals with full working histories, around two per cent have 20 or more labour market transactions (which is an average job length of two years)[46].

3.32 Receiving the notice and being alerted to their right to opt in early will allow individuals the flexibility to continue saving in a workplace pension scheme without a three month break each time they change job.

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[44] Based on three per cent of earnings over £5,715. Median earnings from the Annual Survey of Hours and Earnings. 2010. Office for National Statistics.
[45] *Making automatic enrolment work: a review for the Department of Work and Pensions*. 2010. Department for Work and Pensions.
[46] *Making automatic enrolment work: a review for the Department of Work and Pensions*. 2010. Department for Work and Pensions.

Summary of costs and benefits

3.33 Table 3.4 shows the resource costs to employers of providing employees with a notice that they are using a waiting period and informing the individual of their right to opt in. The average annual cost to employers is around £7 million.

Table 3.4: Estimated resource cost arising from providing a notice to employees when using a waiting period (£ million)

	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
Employer administrative costs	-6.8	0.0	-2.0	-5.1	-6.2	-7.6	-9.2

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.
- All figures rounded to the nearest £0.1 million.
- Information on the staging of employers is available for the existing scope of automatic enrolment and so these costs do take account of when employers are staged. This is why the cost in 2012 seems low.

Cost to business for One In, One Out

The Net Present Value (NPV) cost to business of the employer providing individuals with a waiting period notice is estimated to be £135 million over the 39 years from 2012 to 2050. The Equivalent Annual Net Cost to Business (EANCB) is estimated to be £6 million. The Pensions Bill 2011 requires the employer to use a waiting period notice if choosing to use a waiting period. The benefit of the waiting period to firms was included in the Impact Assessment which accompanied the Pensions Bill 2011[47] and The Equivalent Annual Net Cost to Business (EANCB) of the pension contributions saved during the waiting period of three months is estimated to be a £175 million (saving)[48].

[47] Department for Work and Pensions modelling, based on participation estimates described in Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011

[48] Based on Department for Work and Pensions modelling, based on participation estimates described in Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011 – Annex G

Section 4: Impacts of other legislative changes

Background

4.1 This section summarises a number of minor changes. These are designed to enhance existing legislation set out in the Pensions Act 2008 and subsequent regulations and to implement the recommendations made by the Making Automatic Enrolment Work review. It also includes the impact of the moratorium from all new domestic regulation for three years from March 2011 for businesses with fewer than 10 employees.

4.2 The changes are intended to benefit employers through giving them more flexibility to implement automatic enrolment. The policy intent relating to the workplace pension reforms has been clearly explained and impacts outlined in previous Impact Assessments which accompanied the passage of the Pensions Act 2008 and subsequent regulations, as well as during both formal and informal consultations including the review of Making Automatic Enrolment Work.

4.3 While there is some benefit to employers, the financial impacts are negligible so we do not wish to score an OUT with these proposed changes to the legislative framework under the One-in, One-out rule. Therefore, the impacts of the proposed legislative changes summarised here are presented for completeness only.

4.4 The changes are grouped into four areas: easements which will deliver greater flexibility for employers, the general moratorium on micro businesses, non-technical and technical amendments.

Easements which bring greater flexibility

Certification

4.5 A change in order to make regulations that will introduce a self-certification process which will enable employers to calculate their contributions on their own definition of pensionable pay provided that it starts from pound one. The intention is that employers using certification will be able to increase gradually their contributions over the implementation period.

4.6 This will further benefit employers with good existing provision who are keen to retain their existing schemes during the phasing period. They will not have to make expensive system changes or unnecessarily overhaul their pension arrangements in order to implement automatic enrolment.

4.7 Overall individuals should benefit from the change as it makes it easier for employers to continue to provide existing, often high quality, pension provision. There is a slight risk that some individuals could receive less than the minimum legislated for in the Pensions Act 2008 but this is strongly mitigated by broadly linking the certification test to the minimum level of contributions required for individuals by the legislation.

Provision to allow large employers to enrol before existing staging dates

4.8 The Employers' Duties (Implementation) Regulations 2010 (the regulations) set out when the workplace pension reform duties will begin for each employer. This is a date between 1st October 2012 and 1st September 2016 (the staging period) and starts with the largest employers. The staging date is based on PAYE scheme size for employers with 50 or more individuals in their PAYE scheme and PAYE scheme reference number for employers with fewer than 50. The regulations allow an employer to bring forward their staging date within the staging period if certain conditions are met.

4.9 Employers in the first tranche (1st October 2012) currently have no flexibility to bring forward their staging date and employers in the second tranche (1st November 2012) can only bring forward their staging date by one month. This is a minor amendment to the regulations will allow employers in the first and second tranches to move their staging date forward as early as 1st July 2012. This would provide a statutory base to deduct pension contributions from wages and provide information to pension schemes on workers.

4.10 This will only affect the largest employers (with 50,000 or more employees). It provides the largest employers with a choice and will increase the flexibility they have around their staging date. It could bring approximately 450,000 employees into pension saving early, although we do not know what proportion of these large employers would choose to enrol early.

Amending flexibility of re-enrolment dates

4.11 The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010 allow an employer to select a re-enrolment date within a period of one month beginning with the third anniversary of the staging date (or previous re-enrolment date). This is a change to amend the regulation to allow employers to choose a re-enrolment date three months either side of the third anniversary of their staging date (or previous re-enrolment date).

4.12 This will give employers greater flexibility of three months either side of the re-enrolment date instead of one month ahead of the re-enrolment date. So employers will be able choose a time which is convenient for the business within the window. There is a slight delivery risk to NEST and The Pensions Regulator if a number of employers converged on the same date.

Aligning the due date of the electronic payment of pension contributions with the due date of tax payments to HMRC on the 22nd of each month

4.13 Amending regulations to create a new due date for electronic payment of pension contributions of the 22nd of the month.

4.14 This will ease the administrative burden for employers. The Making Automatic Enrolment Work review recommended aligning automatic enrolment policies with existing tax and NICs processes. An additional easement will be provided to employers by further aligning the due date for electronic payments of pension contributions with the due date for electronic tax payments to HMRC. This will mean that employers can align payment of pension contributions with payments of PAYE and NICs to HMRC, thus saving them time.

4.15 A minor amendment in order to prescribe a 'due date' of the 19th of the month following the month in which employee contributions were deducted or when employer contributions were due. This will allow The Pensions Regulator to issue a notice for unpaid pension contributions without having to ask the pension scheme when contributions became overdue.

Ensuring automatic enrolment duties do not apply to the smallest employers (those with fewer than 10 employees) before April 2014

4.16 In March 2011, the Coalition Government announced a general moratorium from all new domestic regulation for three years for businesses with fewer than 10 employees. The vast majority of employers with less than 10 employees are due to be brought into the workplace pension reforms after the 31st March 2014. However, an early ‘test tranche’ of the smallest employers was intended to be brought in at 1st March 2014. This test tranche included around 10,000 employers, of which around 9,000 have fewer than 10 employees. The test tranche is brought into the duties ahead of other similar sized firms. This enables delivery bodies to understand the responses of micro employers and to adjust their communications and compliance regime to best suit their needs.

4.17 An amendment to the implementation regulations will ensure that the automatic enrolment duties do not apply to employers with less than 10 employees during the moratorium period. The staging profile will be adjusted in order to move the staging date of the test tranche for employers with less than 10 employees from 1st March 2014 to 1st April 2014. The test tranche will be brought into the duties five months ahead of other similar sized firms. As a consequence the staging date of the current April 2014 tranche of employers (who have between 240 and 249 employees) is moved from 1st April 2014 to 1st March 2014.

4.18 A further consequence of the change is to delay the onset of automatic enrolment duties for certain employers with less than 50 employees by one month (two months for those employers with original dates in November 2014 and July 2015). This means that those employers due to be staged into automatic enrolment between September 2014 and September 2015 will be assigned a new staging date between October 2014 and October 2015.

4.19 Micro-employers who are members of a multi-employer PAYE scheme may have been allocated a staging date during the moratorium if they share the same PAYE scheme with larger employers who are staged in between October 2012 and March 2014. The regulations will also be amended to ensure that if a multi-employer PAYE scheme contains micro-employers, micro employers will be provided with a later staging date.

4.20 The overall adjustment to the staging profile will affect around 350,000 individuals. Around half will be brought into pension saving earlier and half later. The profile has been revised so that the vast majority of individuals will be affected by one month only. A minority of individuals will be affected by two months. The change is estimated to have a negligible effect on individuals accumulated pension savings as minimum employer contributions for this group are £10 per month on average at this time due to phasing.

4.21 There is a small saving for employers in total contribution costs over the staging period. The savings reflect the fact that the minimum employer contributions are one per cent of qualifying earnings at this time due to phasing.

4.22 The Present Value of this measure is a total saving to business of around £9 million over the 39 year period from 2012 to 2050. This gives an Equivalent Annual Net Cost to Business of a saving of around £400,000. This saving to business is balanced against a loss of similar magnitude, to individuals. Therefore this represents a transfer of income between employers and individuals.

Non-technical amendments

4.23 The following changes are non-technical amendments which will enable us to align our regulations with planned changes to private pension legislation.

Amending pay reference periods to take account of waiting periods

4.24 Pay reference periods are technical provisions to make automatic enrolment and the quality requirements work in practice. They set the jobholder's contribution entitlement and are needed so that the employer can calculate whether the scheme qualifies for individual jobholders. A change is needed to amend the regulation so that pay reference periods take account of waiting periods. This involves a new initial period for certain employees starting from the automatic enrolment date rather than the staging date, to allow for waiting periods if the employer chooses to use this.

Amending the registration process to take account of waiting periods

4.25 A change to amend the regulation in order to bring registration into line with waiting periods. This will allow the employer to register with The Pensions Regulator within four months of the staging date, rather than the two months currently specified.

4.26 The Government also propose to allow new employers to register with The Pensions Regulator within four months starting from the day on which PAYE income becomes payable in respect of any worker, rather than the three months currently specified.

Scottish Crime and Drug Enforcement Agency

4.27 A change to extend the definition of 'worker' so that police directly employed by the Scottish Police Services Authority (which does not have the status of a police authority) on behalf of the Scottish Crime and Drug Enforcement Agency will be captured within the employer duty.

Appeals to First Tier Tribunal

4.28 A change to amend the rules and order for the First Tier Tribunal in line with the employer duties, compliance regime and associated appeal rights which will come into effect.

Multi-employer PAYE schemes

4.29 The Government proposes to amend the definition of PAYE schemes in the regulation to make it clear that employers within a multi-employer PAYE scheme are subject to the automatic enrolment provisions.

Career average schemes and the change from RPI to CPI

4.30 A change to amend the qualifying criteria of career average pension schemes so that the general measure of inflation for up-rating pensions is the Consumer Prices Index, capped at 2.5 per cent and not the Retail Price index, capped at 2.5 per cent.

Technical amendments

4.31 The following changes are minor technical amendments which correct for oversights or errors in the existing legislation. These amendments are necessary to ensure the legislative framework better meets the policy intent. These have negligible impact.

4.32 The proposed technical amendments are:

- Ensuring that re-enrolment duties cannot apply at the same time as automatic enrolment duties.
- Ensuring correct information is given to jobholders around continuity of scheme membership in line with the new re-enrolment duty.
- Re-enrolment in continuity of scheme membership cases.
- Inducement time limits.
- Recognising fellows of the Institute of Legal Executives as relevant independent advisors.
- Timing and content of the employer notice indicating deferral of automatic enrolment for DB and hybrid schemes.
- Allowing employers to use a personal pension scheme as an alternative qualifying scheme where certain cases of deferral for DB and hybrid schemes cease to apply.
- Amend pay reference period to identify workers without qualifying earnings to align with the automatic enrolment earnings trigger rather than qualifying earnings.
- Preventing ‘double deeming’ of WPP contracts.
- Change of reference in regulations concerning the term ‘provider’.
- Pay reference periods for the quality tests in cases of opt in and re-enrolment
- Amend regulations to ensure jobholders with qualifying earnings who start work late in the year are automatically enrolled.
- Amendments to regulations on non-UK schemes.
- Reclassification of certain lump sum accrual schemes.
- Effect of accelerated increase in State Pension age on the test scheme standard.

Section 5: Specific impacts

5.1 The equality specific impacts are outlined here in as far as they can be assessed with the data currently available.

Small firms

5.2 The 2010 Workplace Pension Reform Regulations Impact Assessment[49] set out the full impacts of the reform legislation for small employers in detail. The Making Automatic Enrolment Work review looked very carefully at whether there was a case for excluding micro-employers from the scope of the policy. The review decided against this but instead focused on a series of easements, some of which are expected to have larger benefits for smaller employers. These have been discussed in the recent 2011 Impact Assessment[50] and include:

- Waiting periods which will benefit smaller firms with higher staff turnover more than larger firms.
- The higher earnings threshold for automatic enrolment which will benefit smaller firms more than larger firms as smaller employers tend to have a higher proportion of relatively low wage workers than larger employers.
- Flagging NEST to small and micro employers, so that small employers are clear that NEST has been designed to meet their needs.

Seafarers and offshore workers

5.3 There is little information on how many employers of different sizes there are within the shipping and oil and gas industry. Due to the nature of the industry, there may be proportionately fewer small firms within it than within the labour market generally. The workplace pension reforms have been designed to increase individual pension saving while minimising the burden on employers and industry. While small employers of eligible seafarers and offshore workers will have to comply with the requirements, they will also benefit from the administrative easements specifically designed in order to help smaller employers.

Waiting period notice

5.4 The total administrative cost of providing a waiting period notice is estimated to be £4 million in the first year for micro firms and £8 million in the first year for small firms. This is compared with estimated contribution savings in the first year of £89 million for small firms and £32 million for micro firms in contributions for those employees who do not opt out[51]. Ongoing costs thereafter of providing the waiting period notice are estimated to be £1million. The value of employer contributions saved each year through operating a waiting period is estimated to

[49] Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011

[50] Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011.

[51] Department for Work and Pensions modelling, based on participation estimates described in Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011 – Annex G. The contribution saving takes account of the fact that employer contributions are only one per cent of qualifying earnings at this time due to phasing.

be £20 million for micro firms and £40 million for small firms once contributions are fully phased in[52].

Moratorium on small business

5.5 Some small firms of less than 50 employees be subject to the automatic enrolment duties one or two months later in order to meet the general moratorium from all new domestic regulation for businesses with fewer than 10 employees announced in March 2011. These firms will save employer contributions during this time.

Competition

5.6 A full competition assessment of the impact of the reforms on the pension industry is set out in the previous Impact Assessment of the workplace pension reforms. The proposals to bring offshore workers and seafarers within the workplace pension reforms will create a small amount of extra demand for workplace pensions across the market. The automatic enrolment of offshore workers who are relatively well paid should prove attractive to the pensions industry. The waiting period notice may also stimulate demand from workers who would like to opt in to workplace pension saving during the waiting period. Overall however, the changes discussed in this Impact Assessment will have a negligible effect on competition.

Gender

Offshore workers

5.7 Women's pension provision is generally poorer than men's[53] for a number of reasons including women receiving lower salaries compared with men and having lower levels of economic activity. Offshore workers however are generally higher earners, earning more than the average and women make up less than four per cent of the offshore workforce[54]. Less than one in ten (8 per cent) of UK officers are female and less than one in three (32 per cent) of UK general ratings are female[55]. There will be a small benefit for women in that the changes will increase the number of women building up private pension savings in their own right and increase their level of income at retirement.

Waiting period notice

5.8 The universal waiting period of up to three months is not expected to disproportionately affect women. It is estimated that approximately the same proportion of women (37 per cent) will be automatically enrolled if employers choose to use a waiting period, as the proportion of women who would be automatically enrolled if the waiting period was not in place (38 per cent). Consequently, the waiting period notice is not anticipated to disproportionately affect women

[52] Pensions Bill 2011 impacts – Annex B: Workplace Pension Reform. Department for Work and Pensions, January 2011

[53] Workplace Pension Reform Regulations – Impact Assessment, Department for Work and Pensions, January 2010 – Annex C.

[54] 2009 UKCS Workforce Demographics Report. Oil and Gas UK.

[55] Transport Statistics Bulletin: UK Seafarer Statistics 2010. Department for Transport.

and, women, as well as men, retain the right to opt in during the waiting period and receive an employer contribution.

Race

5.9 There is no evidence to suggest that there would be disproportionate impacts for minority ethnic groups within the changes proposed.

5.10 Minority ethnic groups are slightly more likely to be in their current employment for less than three months than those from a white ethnic group; therefore minority ethnic groups will be proportionately more likely to receive a waiting period notice. Receiving the notice and being alerted to their right to opt in and receive an employer contribution will allow these individuals the flexibility to benefit from pension saving, if they wish to do so.

Disability

5.11 There is no evidence to suggest that there would be disproportionate impacts for those with disabilities within the changes proposed. Disabled people tend to have been in work for longer than those without disabilities[56] therefore they are less likely to receive a waiting period notice.

Age

Seafarers and offshore workers

5.12 There will be a small benefit for seafarers and offshore workers aged between 22 and State Pension age through building higher pension savings.

Waiting period notice

5.13 The optional waiting period of up to three months will particularly affect young people who are likely to move jobs relatively frequently[57]. Consequently younger people will be more likely to receive a waiting period notice from their employer. Receiving the notice and being alerted to their right to opt in and receive an employer contribution will allow these individuals the flexibility to benefit from pension saving, if they wish to do so.

Sexual orientation

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

[56] Berthoud, R. The employment rates of disabled people. DWP Research Report No. 298.
[57] *Making automatic enrolment work: a review for the Department of Work and Pensions*. 2010. Department for Work and Pensions.

Religion or belief

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

Annex 1: 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. In addition, the Pensions Act 2008 specifies that there will be a review of the National Employment Savings Trust (NEST), including those features that are designed to focus it on the target market, including the annual contribution limit and the prohibition of pension fund transfers to and from the scheme. The evaluation of the reforms will feed into this review, as appropriate.

Review objective:

The evaluation will be a proportionate check that the regulations are operating as expected and to ensure that there are no unintended consequences for individuals, employers or industry as a result of the reforms. Longer term evaluation will be against the policy objective of getting more people to save more for their retirement.

Review approach and rationale:

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

Baseline:

Pre-reform (2011 or early 2012 depending on the data source being considered).

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: **[If there is no plan to do a PIR please provide reasons here]**

Annex 2: Employers processes under the reforms

During implementation, employers are brought into the duties in a managed way called ‘staging’ . This staging period 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 employers will receive letters from The Pensions Regulator 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.

Employers will have to undertake a series of tasks in order to comply with the new duties. Employers must:

- For defined contribution schemes, offer a qualifying pension scheme with a minimum contribution of eight per cent of a band of qualifying earnings, with at least three per cent from the employer.
- Automatically enrol all eligible jobholders with effect from their automatic enrolment date and make contributions to a qualifying pension scheme during a one-month joining window.
- Provide information to jobholders during the one-month joining window to let them know they are being automatically enrolled and have the right to opt out in the month after automatic enrolment.
- Facilitate opt out and make refunds to those who have opted out.
- Register with The Pensions Regulator and provide them with information on how the employer met their automatic enrolment duties within four months of their staging date.
- After their initial staging date, employers must do the following on an ongoing basis:
- Identify and automatically enrol newly eligible jobholders with effect from day one of their employment or the date when they reach age 22 or have qualifying earnings (subject to any waiting period).
- Process workers who opt in to pension saving, making an employer contribution if a jobholder is between age 16 and 21 or between State Pension age and 74 with qualifying earnings, but not being required to make an employer contribution if the worker does not have qualifying earnings.
- Provide information to jobholders.
- Administer opt outs and refunds within the prescribed time periods.
- Re-enrol eligible jobholders who opted out of the scheme on a date within the period starting three months before the third anniversary of the employer’s staging date and ending three months beginning with that date.
- Keep records (for a minimum of six years) about jobholders, workers and about the pension scheme, demonstrating how the employer complied with the duties under the Act.