

The Automatic Enrolment (Miscellaneous Amendment) Regulations 2017

Department for Work and Pensions

RPC rating: validated

Description of proposal

The proposal includes two measures designed to clarify operation of the automatic enrolment (AE) duties compliance regime coming into force from April 2017. This is intended to support the roll-out of AE by providing certainty about the compliance regime for future employers. The first measure would change the employer duties trigger date so that they take effect from the first date of employment of a worker, as opposed to the first pay date as is currently set out in AE regulations. The second measure brings in a compliance easement, already available to existing employers, allowing new employers to defer their AE duties for new workers by up to three months. Both measures will affect the same group of employers (i.e. those created from April 2017 onwards with workers eligible for AE).

Impacts of proposal

The impact assessment (IA) uses projections from The Pensions Regulator (TPR) to estimate the volume of newly-created employers with workers eligible for AE. The creation of between 83,000 and 104,000 new employers is forecast from April 2017 to March 2018, and between 157,000 and 195,000 each year subsequently. Of these, TPR estimates that 51 per cent will have workers eligible for enrolment.

Measure 1: changing the AE duties trigger date

This measure results in an increase in employer pension contributions because they would start earlier. They are calculated using average pensionable earnings and contribution rates. The Department has provided high, low and central scenarios for the average duration of this additional period between an eligible employee starting work and their first pay date. The central scenario is that all new employees will commence employment half way through their first pay period, such that employers pay extra contributions equivalent to that of half a pay period. This cost to business is estimated as £12.4 million in total pension contributions over ten years.

The IA states that the measure would generate savings in administration costs for employers who are no longer required to calculate manually the cost of 'part payment' contributions. The Department calculates this benefit to business to be

worth £4.7 million over ten years, based on the assumption that calculating part-payments of pension contributions takes 30 minutes of a payroll administrator's time for each of 753,000 employees. The wage rate used for this calculation is £12.39, which is a conversion into 2017/18 prices of the cost of a payroll administrator's time used in the workplace pension reform IA in 2010.

Measure 2: allowing new employers to defer their AE duties

The IA explains that enabling employers to defer their AE duties for the first three months of a new worker's employment would lead to a reduction in their total pension contributions. This benefit to business is estimated to be worth £38.5 million over ten years, on the assumption that 43 per cent of employers would choose to defer the AE of their workers, and that they would take advantage of the full three months available to them in these cases. These assumptions draw on evidence from the 2015 employer pension provision survey (EPP) and, when applied to the volume of employers with eligible workers, translate as 20,000 employers deferring their AE duties in 2017/18, followed by 38,000 each year thereafter.

The IA states that, as a result of this proposed change, employers would have to communicate to affected employees a decision to defer AE duties, incurring a cost for providing this information. This one-off administrative cost is estimated to total £0.4 million, which has been calculated by multiplying the average cost of sending a deferral letter by the expected volume of employers created from 2017 onwards. The measure is also expected to generate administrative savings, for instance, if a worker left employment or became non-qualifying for AE contributions before completing his first three months.

Aggregating the impacts of the proposals as a whole, the IA estimates that the two measures would have total costs to employers of £7.8 million and benefits of £38.1 million over ten years, respectively. Combined, this translates to an equivalent annual net direct cost to business (EANDCB) of -£2.7 million.

Quality of submission

The Department has used evidence from a number of sources, including TPR, the 2015 EPP and IAs of previous workplace pension reform regulations, to inform its assumptions. The IA also presents sensitivity analysis of the first measure, to show the effect on employer contributions when altering one assumption relating to employee start dates. The Department has provided a sufficient level of analysis to enable validation of an EANDCB of -£2.7 million, and has presented its analysis clearly through the use of summary tables and a methodology annex. There are, however, areas where the IA could be improved.

In assessing the reduction in employer administration costs resulting from the first measure, the IA states that processing of part-payments "...will be unfamiliar even for experienced payroll administrators and 30 minutes is therefore used as the time taken per employee" (paragraph 54). The IA would benefit from explaining whether this cost is likely to decrease as employers' payroll administrators become more accustomed to processing part payments for new employees.

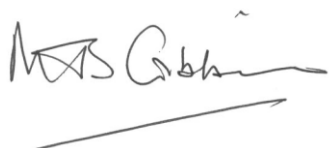
The IA would also be improved by explaining the relationship between the estimates in the present IA to the estimates in the original automatic enrolment IA.

Departmental assessment

Classification	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	-£2.7 million
Business net present value	£25.3 million
Societal net present value	£3.4 million

RPC assessment¹

Classification	Qualifying regulatory provision (OUT)
EANDCB – RPC validated	-£2.7 million
Business impact target score	-£13.5 million
Small and micro business assessment	Not required – deregulatory



Michael Gibbons CBE, Chairman

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