

## **Aligning the phased increase in minimum automatic enrolment contributions with the start of the tax year**

### **Department for Work and Pensions**

**RPC rating: validated**

#### **Description of proposal**

Current legislation requires employers to pay minimum contributions for eligible employees who remain automatically enrolled into a pension scheme. The minimum contribution rate for employers is currently set at 1 per cent of qualifying earnings. This is due to rise to 2 per cent in October 2017 and 3 per cent in October 2018.

The proposal is to align the timetable for increasing minimum contributions with the start of the tax year. Planned increases in October 2017 and October 2018 will be postponed until April 2018 and April 2019, respectively.

#### **Impacts of proposal**

As a result of the proposal, employers' required contributions into workplace pensions between April 2017 and March 2019 will be reduced. Based on The Pensions Regulator (TPR) and the 2015 Employers' Pension Provision (EPP) survey, the IA estimates that 890,000 employers will benefit from the proposed new schedule for phasing in contribution rate increases. Using the Department's modelling, the IA estimates the total saving to employers during the period October 2017 to March 2018 to be £564.6 million and from October 2018 to March 2019 to be £563.6 million. The modelling approach is based on participation estimates, calculated according to the same methodology as the 2015 "Workplace pension: Update of analysis on Automatic Enrolment" publication.

There would be one-off administrative costs for employers having to change key software applications and update their communications to employees. The 2010 "Workplace Pension Reform Regulations" Impact Assessment estimated administrative costs for automatic enrolment to be £60.5 million in 2009/10 prices. Updating this estimate to 2016/17 prices and using TPR projections that 22 per cent of the employers expected to go through automatic enrolment by 2018 would actually have done so by October 2016, the IA estimates the one-off administrative cost for employers to be £14.8 million.

The IA also includes an assessment of the impact of the proposal on pension providers, who are expected to suffer a reduction in annual charge income resulting from the lower contributions, estimated at £16.3 million over the two years.

### Non-business impacts

The validation IA also includes an assessment of non-business impacts. Reduced employer contributions will involve a corresponding loss to employees. Employees will be making smaller contributions into workplace pensions between April 2017 and March 2019. The IA estimates this at around £1.7 billion over the two year period. This is matched by a corresponding loss to employees in lower pension savings. The Exchequer is estimated to save over £0.5 billion in income tax relief as a result of the lower employee pension contributions. This is a further loss to employees. The Department estimates that there will be a reduction in the level of pension saving of around £3.3 billion, across six million employees, between April 2017 and March 2019. Overall, the net loss to employees is £1.6 billion (lost employer contributions and tax relief) over the two years.

### **Quality of submission**

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of -£512.5 million. This will be a qualifying regulatory provision under the business impact target. The Department appraises the proposal and calculates the EANDCB for BIT purposes over two years because all of the impacts of the proposal will occur between October 2017 and October 2019. This contrasts to the original measure where the EANDCB was calculated over 39 years because the impacts were felt over a much longer period. There is a case, since this proposal is an adjustment to this measure, that it should be appraised on the same basis, i.e. over 39 years and with an EANDCB expressed on that basis. However, the RPC accepts that the Department's approach appears to be consistent with the new better regulation framework.

The IA recognises the uncertainty around the proportion of employers expected to pay above the minimum contribution and, therefore, provides scenario analysis around the estimated costs and benefits.

The Department has presented separately to the RPC the calculations and model behind the estimated costs and benefits. The Department has also provided supplementary information on the methods that they have used to estimate the impacts. The IA would benefit from including this information as an annex. Although it would not be feasible to include the whole model, the Department should consider

including in the IA some of the most important steps, assumptions and calculations in the model that led to the final estimates.

The IA would benefit from discussing whether and how employers may decide to compensate employees for their lower contributions, for example by paying higher wages.

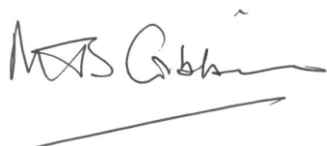
The IA would also be improved by providing further explanation of how the reduction in the income to pension providers from reduced annual charges, and the corresponding lower charges paid by employers, are treated in the overall assessment of the impact on business.

### Departmental assessment

| Classification                                 | Qualifying regulatory provision (OUT) |
|--|---------------------------------------|
| Equivalent annual net cost to business (EANCB) | -£512.5 million                       |
| Business net present value                     | £1,094.3 million                      |

### RPC assessment

| Classification                                  | Qualifying regulatory provision (OUT) |
|---|---------------------------------------|
| EANCB – RPC validated <sup>1</sup>              | -£512.5 million                       |
| Business Impact Target (BIT) Score <sup>1</sup> | -£1,025.0 million                     |
| Small and micro business assessment             | Not required (deregulatory)           |



**Michael Gibbons CBE**, Chairman

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