

Title: Workplace Pension Reform Secondary Legislation 2015 – changes to employer information requirements IA No: DWP 0048 Lead department or agency: Department for Work and Pensions Other departments or agencies: N/A	Impact Assessment (IA)				
	Date: 27th January 2015				
	Stage: Final				
	Source of intervention: Domestic				
	Type of measure: Secondary Legislation				
Contact for enquiries: Lawrence Key Lawrence.key1@dwp.gsi.gov.uk					
Summary: Intervention and Options					RPC: Awaiting scrutiny

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year	In scope of One-In, One-Out?	Measure qualifies as
£6.04m (Saving)	£6.04m (Saving)	-£0.53m (Saving)	Yes	Out

What is the problem under consideration? Why is government intervention necessary? Under automatic enrolment employers must provide certain information to their workers about the changes and how it will affect them. Providing this information places an administrative burden on the employer. The government considers that the current information requirements are too onerous and could be streamlined, particularly as small and micro employers will be staging from 2015 onwards. The current legislation means there are five different pieces of information that an employer must give to different types of worker about what is happening to them under automatic enrolment. The requirements can impose more than one communication or notice to be given to the same employee in quick succession. This has led to a degree of confusion for the individual and imposes an unnecessary burden on employers because they need to continually assess their workforce and send different letters to different people. Government intervention is necessary to reduce this unnecessary burden on employers.

What are the policy objectives and the intended effects? The policy objective behind the reduction of the information requirements is threefold: to reduce the employer's obligation to make an assessment of all categories of workers; facilitate one individualised communication, which suits all circumstances; and to reduce the information requirements to a basic minimum that would be appropriate for all types of worker. The changes are intended to simplify the information requirements placed on employers, thereby reducing burdens on employers whilst at the same time maintaining an appropriate minimum standard for the information that is provided to workers. This measure is intended to give those (smaller) employers yet to automatically enrol their workers, the option to use a more streamlined process to meet the information requirements.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) Two options have been considered: Do nothing (whereby the information requirements remain the same) or legislate (option 1) to give employers the choice to meet their information obligations through a simpler process. As the information requirements are set out in legislation a non-legislative option is not possible.

Do nothing is not a reasonable option. Although employers will be able to follow the current information requirements, they impose an unnecessary administrative burden on employers whilst providing no additional benefit for individuals. Option 1 will lighten the administrative burden on employers yet to participate in automatic enrolment by reducing the potential number of communications and the amount of information that goes into each one. As a result of consultation we have identified which of the current regulations can be removed, combined, simplified or amended, to reduce the administrative burden on employers whilst still providing a minimum standard of information to individuals about automatic enrolment. Reducing and simplifying the information that employers must provide to workers will reduce the administrative burden. As this change is permissive employers will only adopt the new information requirements if the benefits of doing so outweigh the costs. Employers will be able to continue with the existing information requirements if they wish to, for example if this is embedded in their systems and any change would cause additional costs.

Will the policy be reviewed? It will be reviewed If applicable, set review date:2017					
Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		Micro Yes	< 20 Yes	Small Yes	Medium Yes
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)		Traded: N/A		Non-traded: N/A	

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: _____ **27/01/15**

Summary: Analysis & Evidence

Policy Option 1

Description: Reduce and simplify the information requirements employers are mandated to give to employees.

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: £6.04m
2014	2015	10			

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	n/a	0	0
High	0		0	0
Best Estimate	0		0	0

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

N/A

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

Any potential familiarisation costs are estimated to be marginal due to the proposed change because:

- Employers who have already passed their staging date (i.e. the date they start automatically enrolling eligible workers into a pensions scheme) would not have to familiarise;
- Employers approaching their staging date would have to familiarise with relevant literature anyway;
- Individuals approaching their staging date would have to familiarise with relevant literature anyway.

This is a permissive change, employers are only likely to take advantage of the streamlined information requirements if it is more cost effective than using the existing requirements.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A	0	N/A	N/A
High	N/A		N/A	N/A
Best Estimate	£6.04m		£0m	£6.04m

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

As the new information requirements are a reduction of the existing information requirements we anticipate that they will reduce the administrative burden on employers. We estimate a one-off reduction in administration costs of £6.04 million in 2014-15 price terms (due to the removal of the information requirement to workers who are members of a qualifying scheme and the removal of the need for separate notices for workers who can opt in). We have been unable to monetise the on-going reduction in administrative costs to employers if they choose to use the simplified information requirements. This is a direct benefit to business with the EANCB calculated at -£0.53 million (a saving to businesses).

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

The benefit to those employers who have already staged but who choose to change their processes has not been monetised as it has not been possible to make robust assumptions. As this change is deregulatory we anticipate that for the majority of employers the reduction in information requirements will be a benefit and lead to a reduction in administration costs. However the change is permissive so for employers where the cost of the change is greater than any benefits, for example if it is particularly costly to adapt their processes, they can continue as is.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5%

As the legislation will be permissive, employers are only likely to adopt the new information requirements if the cost of doing so is less than that of using the existing requirements. As the new information requirements are a reduction of the existing information requirements we anticipate that they will impose less of an administrative burden on employers. It has been assumed that all firms who are yet to stage will adopt their information requirements in line with the proposed changes. This is likely to be the case as the new information requirements are both a reduction in quantity and simpler thereby imposing less of an administrative burden on employers compared to existing requirements. We have not monetised the benefit to firms who have already staged (large and medium), as we have not been able to robustly estimate the proportion of employers who have staged that will change their information processes. Therefore we are likely to be underestimating the total benefit to employers of this change (over the longer term).

BUSINESSASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0	Benefits: £0.53m	Net: £0.53m	Yes	OUT

Evidence Base

Background

1. A range of legislation has been introduced to support the Government's strategy to tackle the consequences of increasing longevity and widespread under-saving for retirement. This includes the Pensions Acts of 2008, 2011 and 2014 which set out the high level framework for automatic enrolment. The proposals discussed in this Impact Assessment are intended to introduce technical simplifications to the information that employers are required to give to workers as part of the automatic enrolment framework to ease the burden on employers, particularly having regard to the small and micro businesses that will shortly be required to enrol their eligible workers into a workplace pension scheme.
2. We have recently consulted on the detail of the reduced information requirements¹ with a view to establish the impact of the proposed legislation. The response to the recent consultation will be published in early February. Where appropriate, we have referred to responses to the consultation in this impact assessment.
3. Automatic enrolment mandates employers to provide a workplace pension for their eligible workers. Automatic enrolment commenced in July 2012 beginning with the largest employers. All employers that existed in April 2012 are required to meet their duty to enrol their workers into a qualifying workplace pension scheme by April 2017; with small and micro employers starting to stage from June 2015. Around 1.3² million employers will ultimately be affected and around 10 million people will be eligible for automatic enrolment³, with 8 to 9 million people newly saving or saving more⁴.
4. Legislation currently mandates employers to provide certain information to their workers about automatic enrolment, their workplace pension and how these changes will affect them. The Pensions Act 2014 (PA14) amended section 10 of the Pensions Act 2008 (PA2008) to give the Secretary of State discretion to stipulate by regulation what information he requires employers to provide about the effect of the employer automatic enrolment duties.

Rationale for intervention

5. The current legislation means there are 5 different pieces of information that an employer must give to different types of worker about what is happening to them under automatic enrolment. The requirements can require more than one communication or notice to be given to the same person in quick succession. This has led to a degree of confusion for individuals and imposes an unnecessary burden on employers because they need to assess their workforce and send different letters to different workers.
6. Separately, where the employer exercises their choice to use postponement they must also issue a notice to each worker to defer the automatic enrolment date. The postponement notice has 4 sub-types for the employer to choose between, which vary the information requirements according to the category/type of worker.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/381566/technical-changes-to-automatic-enrolment.pdf

² <http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-employer-staging-forecast.pdf>

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266348/review-of-ae-earnings-trigger.pdf

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323953/dwp-annual-report-accounts-2013-2014.PDF

7. The current information provisions present employers with a number of difficulties including identifying the different requirements relevant to each worker. An employer (or their agent/service provider) needs to understand the distinction between all these types of information; the different minimum content requirements; and the deadlines in order to comply with their information-giving duties. This adds to the complexity and compliance difficulty. The effect of the current requirements also means that an employer must continue to assess workers to identify the first time that section 7 (jobholder's right to opt in) or section 9 (workers without qualifying earnings) PA 2008 applies to that worker.
8. Following consultation, the government considers these processes could be streamlined to reduce the administrative burden on employers, particularly with regards to the small and micro employers that will be staging from 2015 onwards.

Policy objectives

9. The policy objective behind the reduction of the information requirements is threefold:
 - To reduce the employer's obligation to make an assessment of all categories of workers;
 - Facilitate one individualised communication, which suits all circumstances; and
 - Reduce the information requirements to a basic minimum that would be appropriate for all types of worker.
10. The changes are intended to ensure that the automatic enrolment process is as simple as possible with minimum burdens on employers whilst still ensuring a minimum standard of information is provided. Responses to the recent consultation welcomed these changes commenting on the positive impact of "*reducing the practical burden of information requirements for employers*".

Description of options

Do nothing

11. Maintaining the status quo and doing nothing would mean that employers would continue to only have the option of using the current information requirements. Consultation with stakeholders indicates that this process could be streamlined and simplified so that we do not place an unnecessary administrative burden on employers. Small and micro employers are due to stage from June 2015 and so would be particularly adversely affected if we were to choose a "do nothing" option. The policy intent is to minimise the burden (on employers) wherever possible. Consequently this is not a reasonable approach.

Option 1: Reduce and simplify the required information requirements (preferred option)

12. The preferred option is to reduce and simplify the required information requirements employers must provide to their workers. This option proposes:
 - To reduce the pieces of information an employer must provide from 5 to 3;
 - To remove any obligation for an employer to provide information to existing members of qualifying schemes who will not be affected by automatic enrolment;
 - To make it easier to send one individualised communication which suits all circumstances; and
 - To simplify some of the mandated language so that the information is clearer.
13. There are still some minimum pieces of information that, from an automatic enrolment policy perspective, it would be desirable for a worker to be given directly. All workers should at least know the following as a minimum:

- If they are being enrolled into a qualifying scheme; and accordingly, will have an employer contribution and deductions taken (at which rates and into which scheme, including confirmation that tax relief will be given on worker contributions); that they can opt-out and how to do so, including knowing when the opt-out period is and confirmation that any contributions will be refunded
- If they meet the necessary requirements that they can opt in or ask to join if they do not have qualifying earnings
- If they are being postponed, that their enrolment is being postponed and that they will be enrolled on a deferred date, but in the meantime, they can opt in or ask to join.

14. As these changes are permissive, employers will be able to continue with the existing information requirements if they wish to, for example if this is embedded in their systems and change would cause additional costs. However, where employers choose to change or they are yet to begin the automatic enrolment duty, they will be able to streamline and amalgamate their communication to workers.

15. To supplement these changes to the information requirements, and as a further aid to employers we will work with the Pensions Regulations (tPR) to review the existing letter templates on their website, as well as consider the need to develop other communication assets that could be of benefit to an employer. The key thing is to ensure consistency and the aim is that the minimum, albeit key, pieces of information and material are given to all workers.

Employers potentially affected

16. The potential employers affected by these changes will be those who are yet to stage in Automatic Enrolment and employers re-enrolling employees. Data from the Pensions Regulator (tPR) employer staging profile⁵ indicates that there are approximately 1.3 million employers left to stage for Automatic Enrolment. From Q1 2015/16 small and micro employers are due to stage. Large and medium employers began staging in October 2012 and are due to continue staging until March 2015.

Table 1: Employer Automatic Enrolment staging dates by employer size

Employer size	Automatic Enrolment Staging date (by financial quarter)
Large Employers (250+ employees)	Q3 2012/13 – Q4 2013/14
Medium Employers (50-249 employees)	Q1 2014/15 – Q4 2014/15
Small and micro employers (49 workers or less)	Q1 2015/16 – Q4 2016/17
New employers	Q1 2017/18 – Q4 2017/18

17. 43,538 employers are estimated to have automatically enrolled their workers at the end of December 2014⁶. Three years after staging, employers are required to re-enrol any workers who have opted out or left pension saving. At this stage, information must be provided to these employees. Employers who have already automatically enrolled may decide to change their existing information protocol to the new streamlined information requirements. It is reasonable to assume employers would only choose to amend their processes if the benefits are greater than the cost.

⁵<http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-employer-staging-forecast.pdf>

⁶<http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-monthly-registration-report.pdf>

18. We have used the best information available to us – primarily the tPR staging profile and the stakeholder consultation – to make an assessment of the number of employers potentially affected by the change. To obtain more evidence on the number of employers implementing the new information requirements would require a large scale survey of employers. Given the changes are deregulatory and permissive and that some information requirements remain, the cost of undertaking a survey would be disproportionate. Furthermore there would be a burden on employers in completing the survey.

Monetised and non-monetised Costs and benefits

19. This section explores the costs and benefits that may be faced if employers exercised their choice to use the new information requirements. As the legislation will be permissive, employers can choose whether or not to use the new streamlined information requirements. If they choose not to, this will maintain the status quo and they will not incur any new costs. It is reasonable to assume employers would only choose to amend their processes if the benefits of doing so are greater than the cost.

Familiarisation costs

20. Whilst there were familiarisation costs imposed on employers by the introduction of automatic enrolment any additional familiarisation costs due to the proposed technical changes are deemed to be marginal because:

- Employers who have already passed their staging date would not have to familiarise;
- Employers approaching their staging date would have to familiarise with relevant literature anyway; and
- Individuals approaching their staging date would have to familiarise with relevant literature anyway.

Employers who are due to stage

21. The model used to estimate administration costs in the Workplace Pension Reform Regulations Impact Assessment (2010) disaggregates the costs to employers (of implementing AE)⁷. The sections relevant to our proposed changes can be seen in the tables below.

Table 2: Breakdown of administration costs to employers in year 1 in (2009-10 price terms).

Year 1 Cost Breakdown by Firm size	Large (£millions)	Medium (£millions)	Small (£millions)	Micro (£millions)
Providing information to existing members of qualifying schemes	10.8	2.2	1.7	0.2
Providing information to jobholders not eligible for automatic enrolment and workers without qualifying earnings about their right to opt-in to pensions saving.	5.64	1.26	2.63	0.92
Total	16.44	3.46	5.45	

⁷<http://webarchive.nationalarchives.gov.uk/20100304151554/http://dwp.gov.uk/docs/wpr-ia.pdf> - Table G.8

22. There are approximately 1.3 million employers left to stage. These are small, micro and new employers. As employers are no longer mandated to provide information to employees who are existing members of a qualifying scheme it is reasonable to assume that they will no longer do so in order to minimise costs. Similarly, employers no longer have to provide separate pieces of information to workers who are not being automatically enrolled but who may opt in, and may combine this information with communications to eligible workers. Again it is reasonable to assume that employers will exercise this option rather than impose upon themselves an unnecessary administrative burden. Using these assumptions we can use the information in table 2 to monetise the benefit to employers of this reduction in administrative burden. Consultation with stakeholders indicates that the overwhelming majority of employers who are yet to stage (small and micro employers) will adopt these changes.

23. Table 2 shows the administrative costs that are being removed as a result of the proposed changes. We have summed the relevant administrative costs (highlighted in yellow) for small and micro employers to estimate the benefit of this change to employers who are due to stage (£5.45 million). These costs are in 2009-10 price terms; we have therefore up-rated to 2014-15 price terms using the GDP deflator – this gives a one off benefit to employers of £6.04 million⁸.

24. Whilst these changes are permissive and so it is not mandatory that employers adopt the new information requirements, it is reasonable to assume that, in the vast majority of cases, they will do so as it will be both simpler and cheaper. Therefore we estimate there will be a reduction in the total administration costs for small and micro employers in year 1; **this is estimated as a direct net benefit to business of £6.04 million** in 2014-15 prices.

25. The sections of the model outlined above only cover the costs of providing information to ineligible workers or those who are currently members of a qualifying scheme. Employers will need to continue to provide information to eligible workers. The previous baseline estimated the total cost to small and micro employers of providing information to workers as £30.9 million in year one in 2014-15 prices. Following the proposed changes, the cost to these employers is estimated at £24.9⁹ million (a reduction of 6.04m in administrative costs).

26. Due to modelling constraints we could not sufficiently disaggregate the costs to employers (of providing the required information to workers) and have not been able to monetise the benefit to employers of the reduction in costs due to reduced correspondence to eligible workers (either in year 1 or ongoing). Our estimate is therefore likely to be an under estimate of the overall savings to employers if the changes are adopted, but because of uncertainty and limited data it is the most robust estimate we can make. Stakeholders responding to our recent consultation commented that employers would benefit from:

- The removal of the information requirement to members of qualifying schemes;
- The combining of information requirements for eligible and ineligible workers; and
- The reduction in information to these workers.

⁸ The GDP inflator between 2009-10 and 2014-15 is 110.69. This gives us the following calculation to convert the estimated benefit to employers into 2014-15 price terms: £5.45 million x 110.69% = £6.04 million.

⁹ £24.9 million was calculated by subtracting £6.04 million from £30.9 million.

Employers who have staged

27. Employers who have already staged (large and medium employers) will still have to automatically enrol new joiners as well as periodically re-enrolling those who have opted out. As this change is permissive, it is reasonable to assume that these employers will only change their information processes if the benefit of doing so is greater than the cost. We have not quantified the benefit to these employers as without a large scale survey of employers it would be impossible to obtain a robust estimate of what proportion would adopt the new changes. We did not consider that such a survey would be proportionate to the changes we are proposing.
28. As with small and micro employers, uptake is uncertain due to the permissive nature of the policy. We were able to make robust assumptions about small and micro employers as they have not staged however there is additional uncertainty for large and medium employers as they will already have existing information processes in place.
29. Whilst we are unable to quantify the benefit to large and medium employers, due to the uncertainty around what proportion will change their processes, consultation with stakeholders indicates that many employers who have already staged will amend their processes to reflect these changes as it would be of benefit to them. Our consultation was not able to determine what proportion of employers this would be.

Individuals

30. If employers choose to adopt the new, streamlined information requirements then there is likely to be a reduction in the opportunity cost to individuals of reading the literature. Furthermore, individuals are less likely to be overwhelmed by the quantity of information and may therefore be more likely to remain both more engaged with automatic enrolment and enrolled in to a workplace pension.
31. Whilst both of the above points clearly represent benefits we are unable to quantify or monetise this benefit to the individual. Responses to our recent consultation aligned with this view with stakeholders commenting that it will be a *“more efficient information process that will be easier for members to understand and employers to implement”* and *“should make communications easier to understand”*.

Feedback from consultation

32. As previously discussed (paragraph 2) the Government recently consulted on the proposed technical changes to automatic enrolment. The consultation period was from 1st December 2014 to 9th January 2015 and a wide range of stakeholders responded (employers, pension professionals, payroll providers and organisations representing employers and employees). The consultation was on the detail of the policy and draft regulations and the general view from respondents was overwhelmingly in favour of the changes.
33. Stakeholders continue to be very supportive of automatic enrolment and the proposed changes to the information requirements and on the whole believe that they will “reduce the burden of information and make the auto-enrolment process a simpler process for employers”. They commented that it would be of benefit to both employers and individuals and is likely to provide a cost reduction for those employers that adopt the changes. Furthermore they commented positively on the permissive nature of the changes.

Small and Micro Business Assessment

34. The change applies to all employers regardless of size. As the measure is permissive, small and micro businesses will not be adversely affected. Due to the staging profile of Automatic Enrolment only small and micro firms are left to stage from Q1 2015/16. As stated above, we were only able to quantify the costs and benefits for employers left to stage, i.e. small and micro firms. The **net benefit to small and micro employers is therefore estimated at £6.04 million** in 2014-15 price terms. Simplification and streamlining of the information requirements is a benefit to small and micro employers.

Rationale and evidence that justify the level of analysis

35. As the measure is permissive with no new direct costs imposed, it is not proportionate to gather further evidence by surveying employers. For this assessment we have made use of available data and models and informal engagement with stakeholders to verify our assumptions.

Direct costs and benefits to Business (OITO)

36. The measures are deregulatory and are in scope for One-In, Two-Out; based on the information above, our best estimate is a one-off **direct benefit to business of £6.04 million** in 2014-15 prices. This captures the one-off benefit to small and micro employers at staging. However it does not account for the ongoing reduction in administrative costs to employers - our estimate is therefore likely to be at the lower end. For OITO purposes the EANCB is calculated at - £0.53million (a saving to business).

37. As previously discussed (paragraph 26) we believe that the full benefit to employers will be greater than this. We are unable to make robust assumptions regarding the proportion of employers who have already staged that will change their information processes or about the ongoing benefit to all employers of the reduction in the information requirements. We are therefore unable to quantify these additional benefits to employers.