



# Summary: Analysis & Evidence

# Policy Option 1

## Description:

### FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: 264.9	High: -294.5	Best Estimate: -14.8
2016	2017	2			

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	-1,595.7	<b>-3,136.5</b>
High	0	-1,738.1	<b>-3,416.2</b>
Best Estimate	0	-1,666.9	<b>-3,276.4</b>

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

Aligning contribution rate increases with the start of the tax year creates costs for individuals in terms of total reduced pension savings (£3,333.2 million) and for the pensions industry in terms of reduced revenue (£16.3 million) over the period 2017/18 and 2018/19 (in 2016/17 terms).

Employers that have staged before this legislative change may have to make changes to key software applications and update their communications to workers. There will be a one-off administration cost to these employers, estimated to be worth up to £14.8 million in 2017/18.

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

Pension providers will need to change the projections that they are required to provide to members about the benefits under their scheme as these are based on contribution rates.

Individuals will receive marginally less income related in-work benefits and overall levels of social welfare from "consumption smoothing" will be negligibly lower as a result of this proposed policy. The Exchequer will also pay out trivially more income related retirement benefits.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	-1,603.1	<b>-3,151.3</b>
High	0	-1,745.5	<b>-3,431.0</b>
Best Estimate	0	-1,674.3	<b>-3,291.2</b>

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

Aligning contribution rate increases with the start of the tax year produces savings in reduced pension contributions for the following groups over 2017/18 and 2018/19 (in 2016/17 terms):

Employers: - £1,128.1 million, individuals: - £1,695.8 million and the Exchequer (individual tax relief): - £524.6 million.

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

Informal discussions with stakeholders suggest that there could be some small administrative savings for employers as a result of aligning changes in contribution rates with the start of the tax year when employers will be making other payroll changes. Individuals will receive trivially more income related retirement benefits and the Exchequer will also pay out marginally less in-work benefits.

<b>Key assumptions/sensitivities/risks</b>	<b>Discount rate (%)</b>	3.5
<p>The present value calculation is most sensitive to the number of employers, eligible workers, opt-out rates, earnings of workers who remain automatically enrolled (for whom employers are required to make minimum pension contributions), and the proportion of employers expected to pay at the minimum contribution rates. We use the latest published forecasts on the number of employers and eligible workers, and research evidence on opt-out rates and the proportion of employers paying minimum contributions. To recognise uncertainty we present a range around the proportion of employers expected to pay above minimum rates.</p>		

### BUSINESS ASSESSMENT (Option 1)

<b>Direct impact on business (Equivalent Annual) £m:</b>			<b>Score for Business Impact Target (qualifying provisions only) £m: -1,025.0 (saving)</b>
<b>Costs: -512.5</b>	<b>Benefits: 0</b>	<b>Net: 512.5</b>	

# Evidence Base

## Background

1. The Government has intervened through a series of legislative interventions to address the consequences of increasing longevity coupled with widespread under-saving for retirement. The Pensions Acts of 2008, 2011 and 2014 establish the high level legal framework for automatic enrolment.
2. Automatic enrolment mandates employers to enrol all eligible workers into a qualifying workplace pension. Roll out began in July 2012 with largest employers and automatic enrolment has now been successfully extended to medium sized employers. Small and micro employers started to stage<sup>1</sup> from June 2015 and it is estimated that 1.8 million employers will have been through automatic enrolment by the end of 2018.<sup>2</sup> It is further estimated that around 10 million people are in the eligible target group<sup>3</sup> for automatic enrolment and 9 million people will be newly saving or saving more into a workplace pension by 2018.<sup>4</sup>
3. The legislation also mandates employers to pay a minimum contribution for eligible workers who remain automatically enrolled. The current timetable gradually phases in rises in minimum contribution rates to a defined contribution workplace pension.<sup>5</sup> The minimum contribution rate is currently at or equivalent to 2 per cent of a band of qualifying earnings<sup>6</sup> (of which at least 1 per cent must be paid by the employer). This is due to rise to 5 per cent in October 2017 (with a minimum employer contribution of 2 per cent) and by October 2018 it will rise to 8 per cent (with a minimum employer contribution of 3 per cent).
4. The Chancellor announced in the 2015 Spending Review that the two phased increases in minimum contributions will be moved to align with the start of the tax year. This in effect means the planned increase in October 2017 will be postponed until April 2018, and the planned increase in October 2018 will be postponed until April 2019. The impact on employers of the lower minimum contribution level is over two policy years, October 2017 to October 2019, and is therefore defined as a time-limited measure.

## Problem under consideration

5. Current legislation gradually phases in rises in minimum contribution rates. The minimum contribution rate is currently at or equivalent to 2 per cent of a band of qualifying earnings (of which at least 1 per cent must be paid by the employer). This is due to rise to 5 per cent in October 2017 (with a minimum employer contribution of 2 per cent) and by October 2018 it will rise to 8 per cent (with a minimum employer contribution of 3 per cent).
6. However, the first legislated rise in contributions occurs when automatic enrolment is rolling out to small and micro employers, many of whom will be engaging with workplace pensions for the first time. There is a risk that the increased contribution rates will prove overly burdensome and put off new employers from engaging in automatic enrolment.
7. In addition, individuals typically expect changes to their package at the start of the tax year, whereas contribution rate increases are currently legislated to increase half way through the tax

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<sup>1</sup> An employer has to meet its automatic enrolment duties (or stage) and begin enrolling its eligible workers into a workplace pension at a pre-defined (by its PAYE records at 1<sup>st</sup> April 2012) staging dates.

<sup>2</sup> <http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-commentary-analysis-2015.pdf>

<sup>3</sup> The eligible target group is defined as workers who are aged between 22 and State Pension age, earning over £10,000 in 2016/17 and either (i) not currently saving in a pension scheme; or (ii) saving in a pension scheme where the employer contributions are less than 3% of the worker's salary, and is not a defined benefit scheme.

<sup>4</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/460867/workplace-pensions-update-analysis-auto-enrolment.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/460867/workplace-pensions-update-analysis-auto-enrolment.pdf)

<sup>5</sup> Under automatic enrolment legislation contributions are made into a workplace pension by individuals, their employers and the Exchequer via tax relief applied to individual cash contributions.

<sup>6</sup> The qualifying earnings band is defined as the upper earnings limit (£43,000 in 2016/17) minus the lower earnings limit (£5,824 in 2016/17) for individuals with gross annual earnings at or above the upper earnings limit; and an individual's gross annual earnings minus the lower earnings limit for individuals earning below the upper earnings limit.

year. This means that increasing pension contribution rates are therefore more likely to be visibly felt by individuals and this may discourage them from saving into a workplace pension and result in an increase in the opt-out rate.

## Rationale for intervention

8. Government intervention will give all employers, and smaller employers in particular, more time to prepare for and pay increased contributions. By aligning contribution changes with the start of the tax year, the time when most other payroll changes are made, it will reduce administrative burden for employers.
9. It also aims to simplify automatic enrolment for individuals by aligning the increase in contributions with the point when individuals are used to seeing changes in their take-home pay, in turn maximising the number of individuals who begin and continue saving into a workplace pension.

## Policy objective

10. The policy objectives are to make automatic enrolment as simple and low cost as possible for employers, particularly small and micro employers, as well as maximise the incentives for individuals to save and continue saving into a workplace pension.

## Description of options considered (including status-quo);

### Do nothing

11. Maintaining the status quo and doing nothing would mean that the minimum contribution rate would continue to rise from its current level of 2 per cent of a band of qualifying earnings (of which at least 1 per cent must be paid by the employer) to 5 per cent in October 2017 (with a minimum employer contribution of 2 per cent) and rise to 8 per cent (with a minimum employer contribution of 3 per cent) in October 2018.
12. The first legislated rise in contributions occurs when automatic enrolment is still rolling out to small and micro employers and there is a risk that the increased contribution rates will prove overly burdensome and put off new employers from engaging in automatic enrolment with an increase in non-compliance rates
13. The current contribution rate increase dates are also out of sync with the start of the tax year (April), when most other payroll changes are made. This means employers have to develop more costly, complex payroll systems and contribution rate rises are more likely to be visibly felt by individuals (whose incomes tend to go up in April) and this may discourage them from saving into a workplace pension (increasing the likelihood that they will opt out).
14. Both the unnecessary administrative burden and the risk of individuals being discouraged from participating in workplace pension saving go against the intended policy objectives of automatic enrolment. For these reasons it is not the preferred option.

### Option 1, the preferred option: Align the timetable for increasing minimum contributions with the start of the tax year in April 2018 and April 2019

15. The preferred option is to change secondary legislation in order that the planned increase in October 2017 will be postponed until April 2018, and the planned increase in October 2018 will be postponed until April 2019. Aligning the increase in minimum contributions with the beginning of the tax year will simplify automatic enrolment for all employers, and smaller employers in particular. They will have more time to prepare for and pay increased contributions. Also the start of tax year is when most other payroll changes are made. Streamlining the increase reduces the administrative burden. The impact on employers of the lower minimum contribution level is over

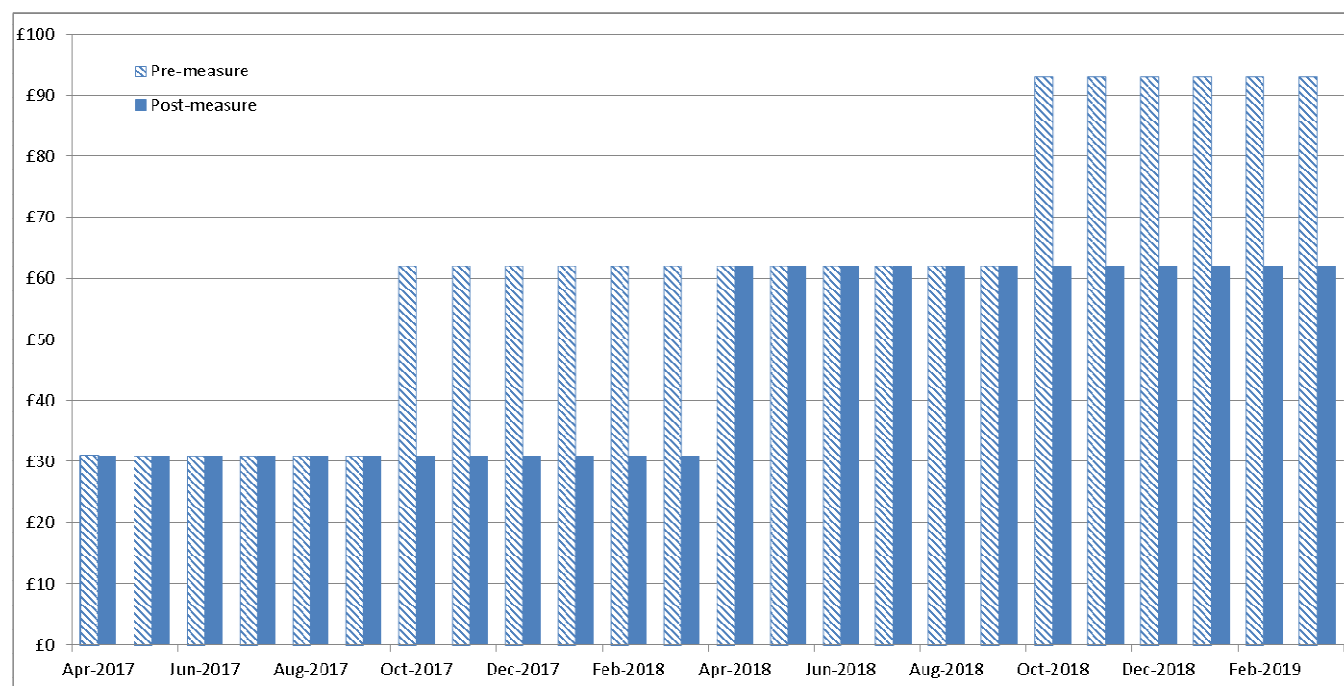
two policy years, October 2017 to October 2019, and is therefore defined as a time-limited measure. The details of the counterfactual and this proposed option are illustrated by Table 1.

**Table 1: Current and proposed (option 1) policy for phased contributions**

<b>Current Policy Phasing Period</b>	<b>New Policy Phasing Period</b>	<b>Employer Contribution % of qualifying earnings</b>	<b>Employee Contribution % of qualifying earnings (including employee tax relief)</b>	<b>Total Contribution % of qualifying earnings</b>
Oct 2012 to Sept 2017	Oct 2012 to March 2018	1	1	2
Oct 2017 to Sept 2018	April 2018 to March 2019	2	3	5
Oct 2018 onwards	April 2019 onwards	3	5	8

16. Chart 1 illustrates a comparison of the maximum monthly employer pension contributions for an individual worker who earns at least £43,000 in 2016/17, under the current approach and the proposed (new) policy. Assuming the automatic enrolment thresholds remain fixed at their 2016/17 levels, the example illustrates employers will benefit from a reduced level of contribution between October 2017 and March 2018 as well as October 2018 and March 2019. From April 2019 onwards, employers pay the same contributions under the current and proposed policies.

**Chart 1: Comparison of maximum monthly employer pension contributions for an individual worker earning at least £43,000 in 2016/17 under the current and proposed policies**



## Monetised and non-monetised costs and benefits of each option (including administrative burden)

17. This section covers the changes in the estimated costs and benefits to employers, individuals, the Exchequer, pension providers and social welfare from the proposed policy change in 2017/18 and 2018/19.

## Impact on employers

### Number of firms affected by the change

18. The Pensions Regulator (TPR) estimates that by the end of 2018 approximately 1.8 million employers will have automatically enrolled their employees. TPR estimate that around 1.2 million (65 per cent) of employers will have eligible jobholders to enrol and therefore could potentially be affected by this proposed change.
19. Evidence from the 2015 Employers' Pension Provision (EPP) survey<sup>7</sup> shows that "the majority (62 per cent) of staged employers are phasing in contributions, but one-third (32 per cent) are contributing at least three per cent". Furthermore, the survey's findings suggest that "two-thirds of employers yet to stage planned to use phasing, 17 per cent planned to contribute at least three per cent from the start and 17 per cent did not know."
20. TPR Declaration of Compliance Statistics<sup>8</sup> show that at the end of August 2015 (the cut-off date for the 2015 EPP fieldwork) around 60,000 employers had been through automatic enrolment. However, it is not clear how many of these employers had eligible jobholders. Given that the vast majority of these firms were large and medium sized employers (had at least 50 workers), it is assumed that all have at least one eligible worker to enrol.
21. Combining data from TPR (paragraphs 18 and 20) with the findings of the 2015 EPP survey (paragraph 18) suggests around 890,000 employers (within a range of 790,000 to 990,000) will benefit from the proposed new schedule for the phasing of contribution rate increases (because they have eligible workers who have been automatically enrolled and they are paying the legal minimum contributions). The details of these calculations are described in Annex A.

### Reduction in employer contribution costs

22. As a consequence of the proposed changes, employers will make smaller contributions into workplace pensions between April 2017 and March 2019 than under the current policy. Table 2 shows the estimated total savings that all employers will make in minimum pension contributions under the proposed change when compared with the current approach. **Employers will save an estimated £1,128.1 million (within a range of £1,080.0 to £1,176.2 million) in total pension contributions (in 2016/17 price terms).**

Table 2: Estimated savings to all employers in minimum pension contributions in 2017/18 and 2018/19 under the proposed contributions schedule when compared with the total cost of minimum pension contributions under the current design (£ million)

	2017/18	2018/19	Total	Scenario
<b>Baseline cost</b>	-2,966.7	-4,237.5	-7,204.3	Central
<b>Savings</b>	564.6	563.6	1,128.1	Central
<b>Baseline cost</b>	-2,904.0	-4,213.4	-7,117.4	High
<b>Savings</b>	588.0	588.2	1,176.2	High
<b>Baseline cost</b>	-3,029.5	-4,261.7	-7,291.2	Low
<b>Savings</b>	541.2	538.9	1,080.0	Low

#### Notes:

Source: DWP modelling based on participation estimates using the same methodology as the 2015 "Workplace pensions: Update of analysis on Automatic Enrolment" publication.

Costs are presented as negative numbers, benefits as positive numbers.

Figures are expressed in 2016/17 price terms and may not sum due to rounding.

Figures are rounded to the nearest £100,000 and may not sum due to rounding

### Increase in employer and pension provider administrative costs

23. Informal engagement with key stakeholders suggests that there are some potential administrative costs from this measure for employers and providers.
24. Employers that have already staged before the publication of these new regulations may have to make changes to key software applications to ensure contributions increase at the new proposed dates and update their communications to workers.

<sup>7</sup> <https://www.gov.uk/government/publications/employers-pension-provision-survey-2015>

<sup>8</sup> <http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf>

25. These legislative changes will not provide additional costs for small and micro employers yet to stage at the time these new regulations are published as they would not yet have set up systems or issued communications. By planning to give at least a year's notice between the publication of the regulations (October 2016) and their coming into force (October 2017) we aim to minimise the additional administrative burden associated with these proposed changes.
26. The 2010 "Workplace Pension Reform Regulations Impact Assessment"<sup>9</sup> provided a breakdown of AE administrative costs estimates. The two processes/costs of interest for this measure are "adapting or purchasing in-house or internal payment systems" and "providing information to existing members" which summed to £60.5 million in 2009/10 prices. Up-rating this estimate to 2016/17 prices using the Office for Budget Responsibility (OBR)'s Budget 2016 GDP deflator forecasts it is equal to £68.0 million.
27. However, as noted in paragraph 24 these costs may only be incurred by employers that had staged before October 2016. Using TPR's latest staging profile projections (from July 2015) it is estimated that by the start of October 2016 402,000 employers would have been through AE, equal to 21.7 per cent of all employers expected to go through AE by the end of 2018.
28. Multiplying £68.0 million by 21.7 per cent, it is estimated that during 2017/18 there will be a maximum **one-off administrative cost for employers of this proposed change worth £14.8 million (in 2016/17 prices)**.
29. Pension providers will need to change the projections that they are required to provide to members about their benefits under their scheme, as they are based on the expected contribution rate. However, stakeholders did not provide any potential monetary estimates of the costs.

#### Reduction in employer administrative costs

30. Informal engagement with stakeholders also suggests that there could be some small administrative savings as a result of aligning changes in contribution rates with the start of the tax year as this is when employers will be making other payroll changes. However, we do not have any evidence of the monetary value of these small savings.

### **Impact on individuals**

#### Number of individuals affected by the change

31. The proposed policy affects all individuals:
  - whose employers are phasing in their contribution rate increases;
  - who have been automatically enrolled; and,
  - who remain saving in a workplace pension by April 2018.
32. DWP modelling of individual volumes is carried out using the same methodology as the 2015 "Workplace pensions: Update of analysis on Automatic Enrolment" publication" and the 2012 Impact Assessment "The Employers' Duties (Implementation) (Amendment) Regulations 2012"<sup>10</sup> but with updated Office for Budget Responsibility private sector earnings determinants. It is estimated that 9 million individuals will be newly saving or saving more in a workplace pension by the end of Automatic Enrolment's rollout in February 2018.<sup>11</sup>
33. There is no evidence on the numbers of individuals whose employers are phasing in or plan to phase in (once they have been automatically enrolled) increases in their contribution rates. However, as noted in paragraph 19 evidence from the 2015 Employer's Pension Provision (EPP) survey shows that "the majority (62 per cent) of staged employers are phasing in contributions, but one-third (32 per cent) are contributing at least three per cent". Furthermore, the survey's findings suggest that "two-thirds of employers yet to stage planned to use phasing, 17 per cent planned to contribute at least three per cent from the start and 17 per cent did not know."

<sup>9</sup> [http://www.legislation.gov.uk/ukxi/2010/772/pdfs/ukxiem\\_20100772\\_en.pdf](http://www.legislation.gov.uk/ukxi/2010/772/pdfs/ukxiem_20100772_en.pdf)

<sup>10</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220500/wpr-rev-implementation-ia-final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220500/wpr-rev-implementation-ia-final.pdf)

<sup>11</sup> Workers who are newly saving or saving more are defined as being workers who are now saving as a result of Automatic Enrolment and previously were either (i) not saving in a pension scheme; or (ii) saving in a pension scheme where the employer contributions were less than 3% of the worker's salary, and was not a defined benefit scheme.

34. By applying the proportions of employers phasing and not phasing in paragraph 32 to the number of employees expected to remain automatically enrolled in paragraph 31, we expect that around 6 million individuals (within a range of 5.6 to 6.2 million) will be affected by the proposed new schedule for the phasing of contribution rate increases. These estimates are detailed further in Annex A

Reduction in total savings into pensions

35. Under automatic enrolment, total pension saving into workplace pensions is composed of individual contributions, employer contributions and tax relief from the Exchequer on individual contributions. The proposed changes reduce the overall level of total pension saving between April 2017 and March 2019. Table 3 shows that there is an estimated £3,348.6 billion (within a range (determined by the proportion of employers phasing contributions) of £3,206.3 to £3,490.0 million) reduction in the total level of pension savings arising from automatic enrolment over the period April 2017 to March 2019.

Table 3: Estimated reduction in total pension saving in 2017/18 and 2018/19 under the proposed contributions schedule when compared with total pension saving under the current design (£ million)

	2017/18	2018/19	Total	Scenario
<b>Baseline</b>	7,326.4	11,022.6	18,349.0	Central
<b>Reduction</b>	-1,651.2	-1,697.4	-3,348.6	Central
<b>Baseline</b>	7,139.8	10,950.1	18,089.9	High
<b>Reduction</b>	-1,719.5	-1,771.4	-3,490.9	High
<b>Baseline</b>	7,512.9	11,095.1	18,608.0	Low
<b>Reduction</b>	-1,582.9	-1,623.3	-3,206.3	Low

Notes:

Source: DWP modelling based on participation estimates using the same methodology as the 2015 “Workplace pensions: Update of analysis on Automatic Enrolment” publication.

Costs are presented as negative numbers, benefits as positive numbers.

Figures are expressed in 2016/17 price terms and may not sum due to rounding.

Figures are rounded to the nearest £100,000 and may not sum due to rounding

Reduction in the receipt of income related in-work benefits

36. The proposed change will cause a small rise in people’s net earnings from working and as a consequence reduce the level of in-work benefits that they are entitled to such as Universal Credit, Tax Credits and Housing Benefit. However, these changes will only be marginal and represent a transfer between the Exchequer and individuals so have not been included.

Increase in the receipt of income related retirement benefits

37. The proposed change will cause a reduction in private pension saving and have a negligible impact on the level of income related benefits received in retirement. A 2012 impact assessment<sup>12</sup> for a far more substantial policy change estimated these changes would increase the amount of income-related benefit for the average low earner by 2 pence per week in retirement. This proposed change affects fewer individuals over a smaller appraisal period so we expect even smaller impacts.

Social welfare

38. Saving in a workplace pension produces a welfare gain to society through 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) - sometimes referred to as consumption smoothing. This transfer of income represents an increase in value to individuals because the income they have deferred will be worth more to them in retirement than it would have been when they were in work.<sup>13</sup>

<sup>12</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220500/wpr-rev-implementation-ia-final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220500/wpr-rev-implementation-ia-final.pdf)

<sup>13</sup> For further explanation of the methodology see Annex H of the Workplace Pension Reform Regulations: Impact Assessment – January 2010 [http://www.legislation.gov.uk/uksi/2010/772/pdfs/ukxiem\\_20100772\\_en.pdf](http://www.legislation.gov.uk/uksi/2010/772/pdfs/ukxiem_20100772_en.pdf)



39. The proposed changes to the timetable for increasing minimum contributions outlined in this impact assessment will have a negligible cost in terms of a reduction in the value of consumption smoothing.

## Impact on the Exchequer

### Exchequer savings (individual income tax relief)

40. Individuals receive tax relief on pension contributions. The proposed changes reduce individual pension contributions between April 2017 and March 2019. Consequently, the amount of tax relief granted in that same period will also reduce. Table 4 shows that the proposals are estimated to save the Exchequer a total of £524.6 million (within a range of £502.5 to £546.9 million) (in 2016/17 price terms) in 2017/18 and 2018/19 in reduced individual income tax relief.

Table 4: Estimated reduction in individual tax relief in 2017/18 and 2018/19 under the proposed contributions schedule when compared with the total individual tax relief under the current design (£ million)

	2017/18	2018/19	Total	Scenario
<b>Baseline</b>	-1,030.1	-1,603.1	-2,633.2	Central
<b>Reduction</b>	256.7	267.9	524.6	Central
<b>Baseline</b>	-1,000.8	-1,591.7	-2,592.5	High
<b>Reduction</b>	267.4	279.5	546.9	High
<b>Baseline</b>	-1,059.3	-1,614.6	-2,673.9	Low
<b>Reduction</b>	246.1	256.2	502.4	Low

Notes:

Source: DWP modelling based on participation estimates using the same methodology as the 2015 "Workplace pensions: Update of analysis on Automatic Enrolment" publication.

Costs are presented as negative numbers, benefits as positive numbers.

Figures are expressed in 2016/17 price terms and may not sum due to rounding.

Figures are rounded to the nearest £100,000 and may not sum due to rounding

### Savings in income related in-work benefits expenditure

41. The proposed change will cause a small rise in people's net earnings from working and as a consequence reduce the level of in-work benefits that they are entitled to such as Universal Credit, Tax Credits and Housing Benefit. However, these changes will only be marginal and represent a transfer between the Exchequer and individuals so have not been included.

### Increase in the payment of income related retirement benefits

42. The proposed changes to the increase in contribution rates will cause a reduction in private pension saving and increase the level of income related retirement benefits paid by the Exchequer. However, these impacts are trivial and therefore not included.

## Impact on pensions industry revenue

43. The pensions industry is estimated to have lower revenues in 2017/18 and 2018/19 as a result of the reduction in the level of pension saving arising from the proposed policy change. Evidence from DWP's "Pension Charges Survey 2015: Charges in defined contribution pension schemes"<sup>14</sup> suggests that the average (member weighted) annual charge of automatic enrolment qualifying schemes is 0.49%. The Pensions Charges survey fieldwork was carried out before the introduction of the Charge Cap so consequently these might be slight over-estimates. Multiplying this annual management charge by the estimated reduction in total pension saving displayed in

<sup>14</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/483179/Pension\\_charges\\_survey\\_2015\\_charges\\_in\\_defined\\_contribution\\_pension\\_schemes.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/483179/Pension_charges_survey_2015_charges_in_defined_contribution_pension_schemes.pdf)

Table 5 gives a decline in pension industry revenue of around £16.3 million (within a range of £15.6 to 17.0 million) (in 2016/17 price terms).

**Table 5: Estimated reduction in pensions industry revenue in 2017/18 and 2018/19 under the proposed contributions schedule when compared with the pensions industry revenue under the current design (£ million)**

	2017/18	2018/19	Total	Scenario
<b>Reduction</b>	-8.0	-8.3	-16.3	Central
<b>Reduction</b>	-8.4	-8.6	-17.0	High
<b>Reduction</b>	-7.7	-7.9	-15.6	Low

Notes:

Source: DWP modelling based on participation estimates using the same methodology as the 2015 "Workplace pensions: Update of analysis on Automatic Enrolment" publication.

Costs are presented as negative numbers, benefits as positive numbers.

Figures are expressed in 2016/17 price terms and may not sum due to rounding.

Figures are rounded to the nearest £100,000 and may not sum due to rounding

## Summary of costs and benefits

44. A summary of the central scenario administration as well as transfer costs and benefits associated with the proposed policy change are presented in Table 6. The majority of costs and benefits are income transfers with gains to employers and the Exchequer offset by losses for individuals and the pensions industry. However, once all these income transfers are netted out, there is still a small administrative cost for employers.

**Table 6: Summary of the central scenario administration and transfer costs and benefits for the proposed policy change in 2017/18 and 2018/19 (£ million) (2016/17 price terms)**

	2017/18	2018/19	Total
<b>Employers</b>			
Reduced contribution costs	564.6	563.6	1,128.1
Additional administration costs	-14.8	0.0	-14.8
<i>Net benefits</i>	<i>549.8</i>	<i>563.6</i>	<i>1,113.3</i>
<b>Pensions Industry</b>			
Reduced revenue	-8.0	-8.3	-16.3
<i>Net benefits</i>	<i>-8.0</i>	<i>-8.3</i>	<i>-16.3</i>
<b>Individuals</b>			
Reduced contribution costs	829.9	865.9	1,695.8
Reduction in total contributions into pensions*	-1,643.2	-1,689.1	-3,332.3
<i>Net benefits</i>	<i>-813.3</i>	<i>-823.2</i>	<i>-1,636.5</i>
<b>Exchequer</b>			
Reduced individual tax relief	256.7	267.9	524.6
<i>Net benefits</i>	<i>256.7</i>	<i>267.9</i>	<i>524.6</i>
<b>Overall</b>	<b>-14.8</b>	<b>0.0</b>	<b>-14.8</b>

Notes:

Source: DWP modelling based on participation estimates using the same methodology as the 2015 "Workplace pensions: Update of analysis on Automatic Enrolment" publication and DWP UC caseload estimates.

Costs are presented as negative numbers, benefits as positive numbers.

Figures are expressed in 2016/17 price terms and may not sum due to rounding.

Figures are rounded to the nearest £100,000 and may not sum due to rounding.

\*The reduction in total contributions into pensions includes the reduction in revenue to the pensions industry

45. There are some additional, albeit negligibly small and non-monetised costs associated with this proposed policy change for pension providers (who will need to change the projections that they are required to provide to members about the benefits under their scheme as these are based on

contribution rates), individuals (who will receive trivially less in-work benefits), The Exchequer (from less expenditure on retirement benefits) and society (overall reduction in levels of social welfare from “consumption smoothing” will be negligible). Informal discussions with stakeholders suggest that there could be some small administrative savings for employers as a result of aligning changes in contribution rates with the start of the tax year when employers will be making other payroll changes. Individuals will receive trivially more retirement benefits and the Exchequer pay out marginally less in-work benefits.

## Risks and assumptions

46. The present value calculation is most sensitive to the number of employers, eligible workers, opt-out rates, earnings of workers who remain automatically enrolled (for whom employers are required to make minimum pension contributions), and the proportion of employers expected to pay at the minimum contribution rates. We use the latest published forecasts on the number of employers and eligible workers, and research evidence on opt-out rates and the proportion of employers paying minimum contributions. To recognise uncertainty we present a range around the proportion of employers expected to pay above minimum rates.
47. Evidence from the 2015 EPP on whether employers are paying (or are planning to pay) at least 3 per cent contributions or phasing in contribution rate increases suggests a sizeable number of employers don't know as outlined in Annex A. We acknowledge this uncertainty through presenting a range of estimates.

## Rationale and evidence that justify the level of analysis (proportionality approach)

48. For this assessment we have made use of available data – 2015 EPP, 2015 Charges Survey, TPR's automatic enrolment staging profile and declaration of compliance statistics - alongside DWP's internal volumes modelling and informal engagement with stakeholders to verify our assumptions. As the measure is deregulatory, discussions with stakeholders suggest it will only impose small additional administrative burden (offset by some administrative savings) and has already been announced in the 2015 Autumn Statement, it is not proportionate to gather further evidence by surveying employers.

## Direct costs and benefits to Business

49. The proposals are deregulatory and within the scope for One-In, Three-Out. Based on informal engagement with stakeholders this change imposes only very small additional burdens on business, offset from some administrative gains and a large reduction in contribution costs. Using a two year appraisal period from October 2017 and 3.5 per cent discount rate in line with the Treasury's Green Book we estimate that the reduction in contributions will save employers an estimated £1,113.3 million in 2016/17 price terms. Furthermore, we estimate that there is **an Equivalent Annual Net Direct Cost to Business (EANDCB) saving worth £512.5 million.**

## Annex A – Estimates of ranges

1. The 2015 EPP asked both staged and employers yet to stage whether they were phasing in contributions or paying at least 3 % from the start. In both instances a significant number of firms answered 'don't know'. In order to create an upper estimate it was assumed all the 'don't knows' do indeed plan or are already phasing in contributions. In order to create a lower estimate it is assumed that all the 'don't knows' do indeed plan or are already paying at least 3%. The central estimate is then created by appropriating half the 'don't knows' to phasing and half to paying at least 3%. Table A1 shows the EPP results for staged employers and the range of estimates; table A2 shows similar estimates for employers yet to stage.

Table A1 – Whether staged employers are phasing in contributions

	<b>Phasing</b>	<b>Not phasing</b>	<b>Unsure</b>
<b>2015 EPP results</b>	62%	32%	6%
Upper estimate	68%	32%	
Lower estimate	62%	38%	
Central estimate	65%	35%	

Table A2 – Whether employers yet to stage plan to phase in contributions

	<b>Phasing</b>	<b>Not phasing</b>	<b>Unsure</b>
<b>2015 EPP results</b>	66%	17%	17%
Upper estimate	83%	17%	
Lower estimate	66%	34%	
Central estimate	75%	26%	

2. TPR Declaration of Compliance Statistics<sup>15</sup> show that at the end of August 2015 (the cut-off date for the 2015 EPP fieldwork) around 60,000 employers had been through automatic enrolment. Whilst TPR estimate 1,200,000 employers with eligible jobholders would have staged by the end of 2018, implying 1,140,000 employers with eligible jobholders were yet to stage at the end of August 2015.
3. The proportions in tables A1 and A2 can then be multiplied by the employer numbers in paragraph 2 to estimate a range for who are or who plan to phase in contributions, therefore will be affected by this policy measure. By example in order to calculate the upper estimate of employers affected the calculation is  $(60,000 \times 68\%) = (1,140,000 \times 83\%) = 990,000$ .
4. The range of employers affected is estimated as 790,000 to 990,000 with a central estimate of 890,000.
5. A similar estimation is done for a range of employees (depending on whether their employers are or plan to phase in contributions) given DWP's internal modelling that 9 million individuals will be newly saving or saving more in a workplace pension by the end of Automatic Enrolment's rollout in February 2018.
6. The range of employees affected is estimated as 5.6 to 6.5 million with a central estimate of 6.1 million.

<sup>15</sup> <http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf>