EXPLANATORY MEMORANDUM TO

THE EMPLOYERS' DUTIES (IMPLEMENTATION) (AMENDMENT) REGULATIONS (NORTHERN IRELAND) 2017

S.R. 2017 No. 52

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Communities to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.

1.2 The Statutory Rule is made under sections 3(2) and (5), 7(4) and (5), 9(3), 10, 12 and 113(2) of the Pensions (No. 2) Act (Northern Ireland) 2008 and is subject to the negative resolution procedure.

2. Purpose

2.1 These Regulations clarify when the automatic enrolment duties apply to newly created employers from April 2017. They amend the start date of the AE duties trigger for new employers outside the AE staging profile (the profile sets out the timetable for gradually bringing existing employers into the AE duties between October 2012 and February 2018). They also give such employers the option to defer automatic enrolment, for up to three months, from the date they take on a new worker.

3. Background

3.1 The Pensions (No. 2) Act (Northern Ireland) 2008 and corresponding provision in the Westminster Pensions Act 2008 introduce a duty on employers to enrol eligible jobholders into a qualifying workplace pension and to make minimum contributions into it. Under the legislation, employers are able to choose the qualifying workplace pension scheme they adopt to discharge this duty. A qualifying scheme is a scheme which meets specific criteria, for example, an occupational pension scheme (including the National Employment Savings Trust (NEST) established on a UK-wide basis under the Pensions Act 2008) or a workplace personal pension scheme.

3.2 Since October 2012, employers have been brought into workplace pensions gradually with each employer knowing in advance when their AE duties will start. This process is set out in the automatic enrolment Employers' Duties (Implementation) Regulations (Northern Ireland) 2010 and referred to as the staging profile. The AE staging profile ends for non-PAYE employers on 1st April 2017, and for PAYE employers on 30 September 2017.

3.3 After 1st April 2017 (for non-PAYE employers) and from 1st October 2017 (for PAYE employers), the trigger date for the AE duties applying to employers outside the staging profile is the pay date of a worker. These Regulations amend this trigger date for both PAYE and non-PAYE employers to the date on which an employer's first worker starts work.

3.4 The new date will provide certainty about when the AE duties trigger applies to newly created employers. It will also enable the Pensions Regulator to enforce the duties.

3.5 Existing employers can defer automatic enrolment of new workers by up to three months. This is known as “postponement” for employers within the AE staging profile.

3.6 These Regulations extend the existing compliance easement to employers created from 1st April 2017, allowing them to defer automatic enrolment of new workers for up to three months in line with existing employers.

3.7 This will have the effect of reducing burdens for this group of employers when automatically enrolling workers for the first time.

4. Consultation

4.1 There is no requirement to consult on these Regulations. They make in relation to Northern Ireland only provision corresponding to provision contained in regulations made by the Secretary of State for Work and Pensions in relation to Great Britain.

5. Equality Impact

5.1 In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on the legislative proposals and, as they merely provide certainty about when the AE duties apply and extend an existing compliance easement to new employers, has concluded that they would not have significant implications for equality of opportunity. In light of this, the Department considers that an Equality Impact Assessment is not necessary.

6. Regulatory Impact

6.1 A Regulatory Impact Assessment is attached as an Annex to this Explanatory Memorandum.

7. Financial Implications

7.1 None for the Department.

8. Section 24 of the Northern Ireland Act 1998

8.1 The Department has considered section 24 of the Northern Ireland Act 1998 and is satisfied that these Regulations –

(a) are not incompatible with any of the Convention rights,

(b) are not incompatible with Community law,

(c) do not discriminate against a person or class of person on the ground of religious belief or political opinion, and

(d) do not modify an enactment in breach of section 7 of the Northern Ireland Act 1998.

9. EU Implications

9.1 Not applicable.

10. Parity or Replicatory Measure

10.1 The corresponding Great Britain Regulations are the Employers' Duties (Implementation) (Amendment) Regulations 2017 (S.I. 2017/347) which come into force on 1st April 2017. Parity of timing and substance is an integral part of the maintenance of single systems of social security, child support and pensions in line with section 87 of the Northern Ireland Act 1998. It was, therefore necessary to make the Regulations during the period of interregnum.

11. 21 Day Rule

11.1 The Great Britain Regulations were made on 9th March 2017. The Regulations were made as soon as possible thereafter, on 14th March 2017. Owing to parity considerations it is vital that the Regulations come into operation on the same date as the Great Britain Regulations, in this instance 1st April 2017.

ANNEX

REGULATORY IMPACT ASSESSMENT

THE EMPLOYERS' DUTIES (IMPLEMENTATION) (AMENDMENT) REGULATIONS (NORTHERN IRELAND) 2017

AUTOMATIC ENROLMENT: NEW BORN EMPLOYER DUTIES TRIGGER; AND DEFERRAL OF DUTIES

The costs and savings outlined in this Regulatory Impact Assessment are calculated on a United Kingdom-wide basis.

Introduction

1. This Regulatory Impact Assessment considers the impact of changing the current automatic enrolment duties trigger date for post-staging employers to safeguard the operation of the automatic enrolment compliance regime and provide greater certainty to employers over when their automatic enrolment duties start. It also assesses the impact of extending proportionate compliance easements to future employers that have been available to employers within the automatic enrolment staging profile.

Background

2. The Pensions (No. 2) Act (Northern Ireland) 2008 and corresponding provision in the Westminster Pensions Act 2008 introduced a duty on employers to enrol eligible jobholders into a qualifying workplace pension and to make minimum contributions into it. Under the legislation, employers are able to choose the qualifying workplace pension scheme they adopt to discharge this duty. A qualifying scheme is a scheme which meets specific criteria, for example, an occupational pension scheme (including the National Employment Savings Trust (NEST) established on a UK-wide basis under the Pensions Act 2008) or a workplace personal pension scheme.

3. Automatic enrolment mandates employers to enrol all eligible workers into a qualifying workplace pension. Roll-out began in July 2012 with the largest employers and automatic enrolment has now been successfully extended to medium sized employers. Small and micro employers are being brought into the pension reforms gradually using a staging profile that is set out in legislation. The staging profile allocates all employers that existed prior to April 2012, and those created between the start of the staging profile, and 2017, a pre-determined start date for their AE duties based on their size and determined by their PAYE reference – this is known as the AE duties trigger. Small and micro employers started to stage[1] from June 2015 and it is estimated that 1.32 -1.46 million employers will have been through AE by the end of 2018[2]. It is further estimated

[1] 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 1st April 2012) staging dates.

[2] http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-commentary-analysis-2016.pdf

that around 11 million people are in the eligible target group[3] for automatic enrolment and 10 million people will be newly saving or saving more into a workplace pension by 2018.[4]

4. The 2010 package of AE Regulations have been amended on a number of occasions over the years to improve and refine the operation of automatic enrolment. These further measures are similarly intended to safeguard the operation of the automatic enrolment compliance regime, provide greater certainty to employers over when their automatic enrolment duties start, and extend proportionate compliance easements to future employers that have been available to employers within the automatic enrolment staging profile since the reforms started to roll-out in 2012.

Problem under consideration

5. The automatic enrolment staging profile set out in the Automatic Enrolment Employers' Duties (Implementation) Regulations (Northern Ireland) 2010 ceases to apply to newly created employers, or those employing workers for the first time, during 2017. In this assessment, these post-staging employers are referred to as "new born employers". A new born employer will have instantaneous automatic enrolment duties as soon as they take on a worker.

6. The Pensions Regulator (TPR), as the public body with responsibility for ensuring compliance with the automatic enrolment reforms, is in the process of designing the operational support model it will offer to post-staging employers. This will need to be different to the support provided to employers during staging, primarily because TPR will not have advance notice of when duties will apply to these new born employers in the way that they have had with staged employers.

7. The staging profile was designed with a definite end point, in the expectation that understanding and complying with automatic enrolment duties would, over time, become part of the normal process of setting up a business; in the same way that new employers are expected to deal with tax and national insurance from the outset. This means communication of the automatic enrolment duties will in future be provided to employers using public information channels, through intermediaries (e.g. accountants, book keepers) and via the GOV.UK platform, when they are looking for information about their responsibilities as an employer.

8. When TPR becomes aware of a new born employer that has taken on a worker, TPR will provide only limited communications to them, primarily if TPR find non-compliance with the automatic enrolment duties on the part of that employer.

9. TPR has considered how best to identify the automatic enrolment duties start date for new born employers. The reporting data available to TPR, via the PAYE system, does not capture the duties trigger date (payroll date of first eligible worker) set out in the automatic enrolment legislation. TPR considered using proxy data; estimating the duties

[3] 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.

[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

date and self-reporting by employers. However, none of these approaches provided the certainty necessary for proper operation of the automatic enrolment compliance regime, and were discounted at the planning stage.

10. TPR consulted informally with employer groups, the payroll software industry, and pension providers about the operational impact of the current trigger date for post-staging employers. Stakeholders agreed that the current process would create uncertainty and that putting a new, clearer, automatic enrolment duties trigger date in regulations was a beneficial and proportionate way to address the issue.

Rationale for intervention

Measure one: automatic enrolment employer duties trigger

11. TPR has identified an issue about how the automatic enrolment duties will apply to employers who start to employ eligible workers from 2017.

12. The post-staging trigger date described above was designed over six years ago without the benefit of TPR's operational experience with automatic enrolment. It is clear now that the current post-staging compliance mechanism does not allow TPR to identify the automatic enrolment duties trigger date set out in legislation as the relevant employer data is not collected by HMRC systems. This fundamentally undermines TPR's ability to monitor and enforce compliance.

13. In addition the current trigger date, for new born employers, differs from that which will be commonly understood by those to whom an employer would likely seek assistance when complying with their automatic enrolment duties, e.g. payroll software providers, accountants, pension providers. These professional groups will only have experience of dealing with employers, who are within the staging profile, whose duties dates were set as the beginning of a calendar month determined by their PAYE reference. In these circumstances it will be difficult to explain clearly, to both employers and their advisers, when the duties will apply to an employer who is outside the staging profile and who is therefore impacted by the operation of the post-staging duties trigger in the current legislation. Even where the trigger date can be accurately identified, most employers would need to carry out a complex manual calculation of their workers' first pension deduction, as commercially available payroll software does not currently support the unreformed employer duties trigger.

14. Furthermore, the current automatic enrolment duties trigger date works against the intention of the automatic enrolment reforms which aim to bring workers into pensions saving at the earliest opportunity after they take up employment. This "date of first pay" trigger means that an individual may not be automatically enrolled into pensions saving until up to a month after they start work with their employer.

15. TPR has considered various administrative work-arounds to overcome the uncertainty created by the current trigger date for the automatic enrolment employer duties. Unfortunately the non-legislative approaches do not provide the definitive duties' start date that TPR needs in order to have confidence in whether, and when, to take enforcement action against an employer who fails to comply.

16. It has therefore been concluded that changing the legislative definition for the employer duties' trigger date is the correct approach to enable TPR to operate the compliance regime correctly for automatic enrolment.

Measure two: Deferring the automatic enrolment duties

17. Existing employers brought into the automatic enrolment duties via the staging profile have the ability to defer the implementation of their automatic enrolment duties by up to three months (this process is known as deferral). This administrative easement is being extended to future employers who, as the current legislation is drafted, cannot make use of the easement which is available only to employers within the staging profile set out in the Automatic Enrolment Employers' Duties (Implementation) Regulations (Northern Ireland) 2010.

18. The new power is necessary to retain a proportionate easement for employers, particularly for small and micro businesses, that are likely to benefit most from the ability to have more time to deal with the official administrative requirements around employing a member of staff. It is the employer's choice as to whether they use the easement, and for how long they choose to defer enrolment within the three month window. A permissive legislative approach has therefore been taken.

Policy objective

Measure one: Automatic enrolment employer duties trigger

19. The primary policy objective is to make sure the automatic enrolment compliance regime functions as intended. The change will also keep the administration of the automatic enrolment reforms as simple and low cost as possible for employers, particularly small and micro businesses.

20. To support employers with their automatic enrolment duties it is necessary to ensure that the compliance regime is straightforward to understand and to operate. To that end, the employers duties trigger date should allow TPR to see quickly and reliably when the automatic enrolment duties apply to an employer, and therefore whether that employer is complying with the law.

21. The updated approach will replace the current trigger date with the "start date of employment of a worker" which is data that is collected by the PAYE system and is therefore available to the Pensions Regulator.

22. Setting out the new trigger date in legislation will provide legislative certainty for the post-staging compliance framework, so ensuring that TPR can take enforcement action when necessary to ensure the integrity of the workplace pension reforms.

Measure two: Deferring the automatic enrolment duties

23. The introduction of this permissive measure for future employers will replicate the existing administrative easement, known as deferral, which is currently available only to employers within the staging profile.

24. At the time of the Making Automatic Enrolment Work (MAEW) Review in 2010 many employers expressed concern that the instantaneous enrolment of workers could lead to significant costs associated with enrolling large numbers of employees working for short periods.

25. The MAEW reviewers recommended the introduction of a waiting period to help alleviate these problems, particularly to benefit those sectors with large numbers of short term, seasonal workers. The approach was also intended to ease the administrative burden generally by allowing employers more time to complete all the processes involved in automatic enrolment. After consultation, the government settled on a 3 month deferral period, as this struck a proportionate balance between employers being able to reduce the administrative costs of enrolling staff who only remained with them for a short time, or did not complete their probationary period; without unfairly disadvantaging individuals who should be able to start saving at the earliest opportunity after starting work.

26. Real world experience has shown the benefit of this measure and it is considered sensible and proportionate to extend the easement to future employers, outside the staging profile, who would otherwise be unable to make use of the ability to defer the automatic enrolment duties.

Description of options considered

Measure one: Automatic enrolment employer duties trigger

<u>Option 1 – Do nothing</u>

27. Maintaining the status quo and doing nothing would mean that the current automatic enrolment implementation regulations for new born employers take effect in 2017. In these circumstances, TPR will face significant challenges in ensuring that new born employers are complying with the requirements of the automatic enrolment reforms. The start date of the automatic enrolment duties set out in existing legislation is also complex for employers to understand, with increased risk that these employers fail to comply with their duties.

28. Without the new duties trigger date, TPR would be unable to operate the compliance regime with certainty, and an unnecessary administrative burden would be placed on new born employers, going against the intended policy objectives of automatic enrolment. For these reasons it is not the preferred option.

29. Leaving the current regulations unchanged would put new burdens on employers, where they would be required to undertake manual calculations because payroll software is unable to deal with the complex new calculations that would be caused by the use of the date of first payment as the duties' trigger date.

30. Payroll software providers would need to design new processes, develop new compatible software packages and deliver these into the market with associated training and support. This development activity would have a cost which it is presumed would have to be passed onto employers as the end users of the payroll software.

Option two: (the preferred option) change the automatic enrolment regulations so that the start date of the employer duties for post-staging employers is "the date of first pay of a worker"

31. The preferred option is to change the duties trigger date in secondary legislation in order that TPR has certainty about when the automatic enrolment duties apply to an employer and can therefore operate the compliance regime.

32. The new duties trigger date for post-staging employers would be: "the date of employment of the first worker".

33. This new date would have the additional benefit of being more clearly understood by employers and their advisers, as this approach more closely matches the existing approach. The new date is consistent with the objectives of the automatic enrolment reforms in that employees should be brought into pension saving at the earliest opportunity following their start date of employment.

Measure two: Allowing new born employers to defer the automatic enrolment duties in respect of new workers

Option one: do nothing

34. Maintaining the status quo would mean that future employers would be unable to make use of a proportionate compliance easement that has been available to staged employers, and would face instantaneous automatic enrolment duties for new workers who may be working for them for only a short period of time, or may not complete their probationary period. This would cause additional administrative burdens for employers and increase employer costs associated with automatic enrolment.

35. Future employers would have less flexibility than that available to employers within the staging profile, who have been able to make use of deferral periods for workers since the roll-out of the automatic enrolment Programme began in 2012. It would also be necessary to familiarise intermediaries and advisers with a revised approach.

36. It would be unreasonable to deny this proportionate compliance easement to post-staging employers.

Option two: legislate to introduce a compliance easement to allow new born employers to defer the automatic enrolment duties

37. Legislating to allow new born employers to defer the automatic enrolment duties for new workers for up to three months will give those businesses the same flexibility that has been available to employers within the staging profile since the roll-out of the Programme began in 2012. This is a permissive measure. This measure will also mitigate some of the additional costs to employers arising from measure one above.

38. It is believed this compliance easement should be available to future employers.

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

39. This section covers the changes in estimated costs and benefits to employers, individuals, and the Exchequer and pension providers of both measures.

40. The impacts of each measure will be presented separately in the following section, however, some of the impacts identified in measure one may be offset if employers choose to utilise the deferral option described in measure two. Detailed analysis of the net effect of the two measures is presented in the summary section (paragraphs 107-108).

Measure one: Change of the employers' automatic enrolment duties date

Impact on employers

Number of firms affected by the change

41. TPR estimates that between 83,000 and 104,000 new employers will be created from April 2017 to March 2018, following this between 157,000 and 195,000 new employers will have duties each year. TPR estimates that of these newly created employers, 50.7 per cent will have eligible jobholders to enrol and will therefore be affected by this change.[5]

42. This analysis uses the central estimate of the volume of employers that will be impacted by the change.

Increase in employer contribution costs

43. As a consequence of the proposed change, newly created employers will have to make additional contributions into workplace pensions from April 2017 onwards for each eligible employee, as their duties will now cover the days between an eligible jobholder starting work and their first pay date. This will result in an increase in pension contributions for the period between the eligible employee's start date and the initial pay date.

44. Department for Work and Pensions (DWP) modelling is used to calculate the employer contribution costs, using average pensionable earnings and contribution rates to estimate pension contributions[6]. Additional assumptions have also been included as these extra contribution costs are dependent on the pay period adopted by the employer and the number of days between an eligible employee starting work and their pay date.

45. There is limited data available on the average number of days between an employee starting work and their pay date, so a range is applied. For the number of days between an employee's start date and pay date, the central estimate is that all employees will

[5] For further detail see Annex A

[6] For further detail see Annex A

commence employment half-way through their associated pay period, whether that is weekly, fortnightly or monthly. The employer therefore pays an extra half a pay period's worth of contributions to the workplace pension.

46. To create a lower, or minimum, estimate it is assumed each employee has the minimum number of days between their start date and pay date, i.e. their start date is the last day of the pay period. Therefore the employer pays one extra day's worth of contributions into the employee's workplace pension.

47. To create an upper, or maximum, estimate, it is assumed all employees start employment at the start of the pay period. The employer therefore pays a full pay period's worth of extra contributions, i.e. one full month for workers who are paid monthly, one full week for employees who are paid weekly, etc.

48. HMRC analysis of Real Time Information (RTI) has been used for assumptions on the pay periods adopted by newly created employers from April 2017. Table 1 shows the average pay period frequencies split by firm size, using RTI from April 2014- March 2016.

Table 1: Proportions of employers using a monthly, fortnightly and weekly pay period by employer size

	Monthly	Fortnightly	Weekly
Micro (1-4)	86%	1%	14%
SME (5-49)	72%	2%	26%
SME (50-249)	77%	3%	20%
Large (250-499)	80%	3%	17%
V Large (500+)	83%	2%	15%

Source: HMRC UK PAYE Real Time Information feeds, April 2014- March 2016
These are weighted percentages in order to exclude less common pay period frequencies, such as irregular, one-off, annual, every 3 months and every 6 months. Averages of employers using a monthly and four weekly pay period are combined into the monthly average.

49. Table 2 shows the estimated costs of contributions that all newly created employers will make in minimum pension contributions[7] under the proposed change when compared to the current approach.

50. As a result of bringing forward the employers' automatic enrolment duties date from their employees' first pay date to their starting date, it is estimated that **employers will pay an extra £12.4 million (within a range of £0m to £25.8m) in total pension contributions up to 2026/27 (2017/18 price terms)**.

[7] Employers must make legal minimum contributions of 1% until April 2018, after April 2018 this will increase to 2% and after April 2019 employer's minimum legal contributions will increase to 3%.

Table 2: Estimated costs to all employers in additional annual pension contributions, compared to the current design, for ten years from 2017/18 (£millions, 2017/18 terms)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Baseline cost of employer contributions with duties date unchanged*	-2.0	-30.7	-82.0	-121.7	-161.5	-201.3	-241.0	-280.8	-320.5	-360.3
Additional annual employer contribution costs (central)	-0.4	-1.1	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Additional annual employer contribution costs (max)	-0.8	-2.3	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Additional annual employer contribution costs (min)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: DWP modelling.
Costs are presented as negative numbers, benefits as positive numbers.
Figures are rounded to the nearest £100,000 and may not sum due to rounding.
* The baseline costs present the cumulative cost of pension contributions to new born employers in the do nothing scenario, where contributions are made from an employee's first pay date.

Reduction in employer administration costs

51. Informal engagement with key stakeholders suggests that this measure is likely to lead to savings in administration costs for employers as they will not be required to manually calculate the cost of "part payment" contributions, as they would need to in the do nothing scenario.

52. The 2010 Workplace Pension Reform Regulations Impact Assessment[8] estimated the costs of various processes related to an employer implementing their automatic enrolment duties and recognised that most employers outsource their monthly payroll obligations. The Pensions Regulator supports the view that newly created employers are likely to outsource processing of their payroll, and that it is likely to be a payroll administrator who carries out the task of manually calculating part payments.

53. The model[9] used to estimate administration costs in the Workplace Pension Reform Regulations Impact Assessment (2010) gives the average unit cost of one hour of a payroll administrator's time of £11.03 in 2009/10 price terms[10]. Converting this into 2017/18 prices, using the Office for Budget Responsibility's (OBR) Autumn Statement 2016 GDP deflator, suggests a unit cost for one hour of £12.39.

54. TPR estimate that manually calculating part-payments of pension contributions would take 30 minutes for an inexperienced user. Since the processing of part-payments is a new issue, it will be unfamiliar even for experienced payroll administrators and 30 minutes is therefore used as the time taken per employee in this analysis. It is estimated therefore that the time no longer spent manually processing part-payments will generate **a direct benefit to new born employers worth £4.7 million in 2017/18 price terms**, as seen in Table 3 below.

[8] http://www.legislation.gov.uk/nisr/2010/123/pdfs/nisrem_20100123_en.pdf

[9] An "administrative cost model" initially developed in 2006 for the White Paper "Personal accounts: a new way to save", thoroughly scrutinised by a cross government working group and included in subsequent Workplace Pension Reform Impact Assessments used a range of published data sources and specially commissioned research to estimate the administrative cost to employers of the processes required under the employer automatic enrolment duties by firm size. Due to the level of scrutiny during development and cross government agreement, DWP believe the model is still fit for purpose.

[10] Average across all firm sizes.

Table 3: Estimated savings to all employers in reduced administration costs from no longer manually calculating part payments for ten years from 2017/18

		2017/18	2018/19	Annual ongoing 2019/20 onwards	**Total**
Row One	Number of Employees	42,000	84,000	78,000	**753,000**
Row Two	Administrator wage cost per 30 minutes (2017/18 terms)	£6.19	£ 6.19	£ 6.19	-
Row Three (Row One multiplied by Row Two)	Annual savings on manual calculation of part payments (£millions, 2017/18 terms)	£0.3	£0.5	£0.5	**£4.7**

Source: DWP modelling. Costs are presented as negative numbers, benefits as positive numbers. Figures are rounded to the nearest £100,000 and may not sum due to rounding.

Impact on individuals

Number of individuals affected by the change

55. The proposed policy affects all individuals who are eligible for automatic enrolment working for a newly created employer from April 2017, as they will become automatically enrolled on an earlier date than if the policy were to remain unchanged, and as such they will receive additional pension contributions for the days between their employment start date and their first pay date.

56. DWP modelling of individual volumes of those who will be newly saving as a result of automatic enrolment is carried out using the methodology described in Annex A, with updated Office for Budget Responsibility's Autumn Statement 2016 private sector earnings determinants.

57. It is estimated that 42,000 individuals working for a new employer will be newly saving under automatic enrolment in 2017/2018 and 84,000 in 2018/19, following this there will be 78,000 individuals newly saving in each year onwards.

Increase in total savings into pensions

58. 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 will increase the total level of pension saving from 2017/18 onwards.

59. The total additional contributions that individuals will benefit from to their pension saving will be dependent on their employment start date and the length of their pay period (paragraphs 44-47).

60. Table 4 shows **there is an estimated £32.9 million (within a range [determined by the number of days between an employee's start date and pay date] of £0m to £68.4m) increase in the total level of pension saving for employees of new born employers over the period from 2017/18 to 2026/27 (in 2017/18 terms)**.

Table 4: Estimated increase in total pension saving as a result of duties date change compared to the current design, for ten years from 2017/18 (£millions, 2017/18 terms)

	2017/18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	2023/ 24	2024/ 25	2025/ 26	2026/ 27
Baseline total pension contributions with the duties date unchanged*	4.7	78.5	218.6	324.6	430.7	536.7	642.7	748.7	854.8	960.8
Total additional pension saving (central)	0.9	2.9	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Total additional pension saving (max)	1.9	5.9	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Total additional pension saving (min)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: DWP modelling.
Costs are presented as negative numbers, benefits as positive numbers.
Figures are rounded to the nearest £100,000 and may not sum due to rounding.
* The baseline total of contributions presents the cumulative amount of total pension saving for individuals employed by new born employers in the do nothing scenario, where contributions are made from an employee's first pay date.

Increase in receipt of income related in work benefits

61. The proposed change will cause a small reduction in people's net earnings from working and as a consequence increase the level of in-work benefits 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 individuals and the Exchequer so have not been included.

Reduction in receipt of income related retirement benefits

62. The proposed change will cause a small increase in private pension saving and have a negligible impact on the level of income related benefits received in retirement. A 2012 impact assessment[11] for a more substantial policy change estimated that a change which reduced overall pension savings by £10.2 billion would increase the amount of income-related retirement benefits for the average low earner by 2 pence per week.

63. This proposed change affects fewer individuals and increases pension savings by a significantly smaller amount so the expected reduction would be even smaller.

Social Welfare

64. 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.[12]

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[11] http://www.legislation.gov.uk/nisr/2012/332/pdfs/nisrem_20120332_en.pdf

[12] For further explanation of the methodology see Annex H of the 2010 Workplace Pension Reform Regulations Impact Assessment http://www.legislation.gov.uk/nisr/2010/123/pdfs/nisrem_20100123_en.pdf

65. The proposed changes to the duties date outlined in this impact assessment will have a negligible cost in terms of an increase in the value of consumption smoothing.

Impact on the Exchequer

Exchequer savings (individual income tax relief)

66. Individuals receive tax relief on their pension contributions, paid at their marginal rate of income tax, and since the proposed policy change increases individual pension contributions from October 2017 onwards, the amount of tax relief granted in that period will increase as a consequence of the change in the automatic enrolment duties date.

67. Table 5 shows that the proposed change will **cost the Exchequer a total of £4.9 million (within a range of £0-£10.2m) (in 2017/18 price terms) in increased individual income tax relief from 2017/18 to 2026/27**.

Table 5: Estimated increase in annual tax relief on individual contributions as a result of duties date change compared to the current design, for ten years from 2017/18 (£millions, 2017/18 terms)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Baseline cost of tax relief on individual contributions with duties date unchanged*	-0.6	-11.4	-32.7	-48.5	-64.3	-80.2	-96.0	-111.9	-127.7	-143.5
Cost of additional tax relief on individual contributions (central)	-0.1	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Cost of additional tax relief on individual contributions (max)	-0.3	-0.9	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Cost of additional tax relief on individual contributions (min)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: DWP modelling.
Costs are presented as negative numbers, benefits as positive numbers.
Figures are rounded to the nearest £100,000 and may not sum due to rounding.
* The baseline costs present the cumulative cost of tax relief on individual contributions to the Exchequer in the do nothing scenario, where contributions are made from an employee's first pay date.

Increase in the payment of income related in work benefits

68. The proposed change will cause a small fall in people's net earnings from working, since the increased pension savings will only have an impact in their first month of working.

69. As a consequence of the policy change the level of in-work benefits they are entitled to will increase, 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 in this assessment.

Savings in expenditure on income related retirement benefits

70. The proposed change to the automatic enrolment duties date will cause an increase in private pension saving which will reduce the level of income related retirement benefits paid by the Exchequer. However, these impacts will be trivial and therefore are not included in this assessment.

Impact on pensions industry revenue

71. The pensions industry is estimated to see a marginal increase in revenue from 2017/18 onwards due to this policy change, as a result of the overall increase in total pension contributions. Evidence from DWP's 'Pension Charges Survey 2015: Charges in defined contribution pension schemes'[13] suggests that the average (member weighted) annual charge of automatic enrolment qualifying schemes is 0.49 per cent. The Pensions Charges survey fieldwork was carried out before the introduction of the Charge Cap so consequently these may be slight over-estimates.

72. Multiplying this annual management charge by the estimated increase in total increase in pension saving in Table 4 (paragraph 60), gives a marginal increase in total pension industry revenue of around **£0.2 million from 2017/18-2026/27 (within a range of £0-£0.3m) (in 2017/18 terms).**

[13] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/483179/Pension_charges_survey_2015_charges_in_defined_contribution_pension_schemes.pdf

Measure two: Allow new born employers to defer automatic enrolment duties for new workers

73. This measure will impact the same groups as measure one, meaning that the impacts of measure one could be offset for employers choosing to defer their automatic enrolment duties and for their employees.

Impact on employers

Number of firms affected by the change

74. This measure will affect all new employers with eligible jobholders who choose to defer their automatic enrolment duties (as with measure one).

75. TPR estimates that between 83,000 and 104,000 new employers will be created from April 2017 to March 2018, following this somewhere between 157,000 and 195,000 new employers will have duties each year. TPR estimate that of these newly created employers, 50.7 per cent will have eligible jobholders to enrol and will therefore be affected by this change.[14]

76. Evidence from the 2015 Employer Pension Provision Survey (EPP)[15] notes that 43 per cent of employers chose to defer the automatic enrolment of their employees[16]. By applying this proportion to the volume of employers with eligible jobholders, it is estimated that around 20,000 employers will choose to defer application of their automatic enrolment duties in 2017/18, with 38,000 employers using the deferral measure each year after until 2026/27.

Reduction in employer contribution costs

77. As a result of this policy change employers will see a reduction in their contribution costs towards workplace pensions, as they will be able to defer their automatic enrolment duties for the first three months of a qualifying worker's employment.

78. By applying the 43 per cent of employers utilising a deferral period from the 2015 EPP to the individual level modelling, the savings from 43 per cent of employees having their automatic enrolment deferred are calculated. EPP 2015 evidence also shows that the majority of employers that chose to defer their automatic enrolment duties use the full 3 months available to them, so it is assumed that an employer will use the easement for the maximum period allowed (three months).

79. Table 6 shows the estimated savings of contributions that all new employers will make in minimum pension contributions under the proposed change when compared to the current approach. **Employers will save an estimated £38.5 million (2017/18 price terms) in pension contributions in total over the period from 2017/18 to 2026/27**.

[14] For further detail see Annex A.

[15] https://www.gov.uk/government/publications/employers-pension-provision-survey-2015

[16] This is the weighted average proportion across all firm sizes and relates to take up of the deferral measure amongst employers who had already staged in September 2015, therefore the implicit assumption is that average take up of the measure will be similar amongst new born employers.

Table 6: Estimated savings to employers in annual pension contributions from deferring their automatic enrolment duties for three months, for ten years from 2017/18 (£millions, 2017/18 terms)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Baseline cost of employer contributions without the option of a deferral period*	-2.0	-30.7	-82.0	-121.7	-161.5	-201.3	-241.0	-280.8	-320.5	-360.3
Savings in employer contribution costs	0.7	3.5	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3

Source: DWP modelling.
Costs are presented as negative numbers, benefits as positive numbers.
Figures are rounded to the nearest £100,000 and may not sum due to rounding.
* The baseline costs present the cumulative cost of pension contributions to new born employers in the do nothing scenario, where they do not have the option to utilise a deferral period for their new employees.

Administrative cost of deferring the AE duties

80. As a result of this policy change employers will be able to defer their automatic enrolment duties for up to three months. However there is an information requirement associated with this option as employers must communicate this decision to affected employees. As a result there will be a small cost for employers associated with utilising the option of deferring the automatic enrolment duties.

81. The 2010 ‘Workplace Pension Reform Regulations Impact Assessment’[17] provided a breakdown of automatic enrolment administrative costs estimates. The process and cost of interest for this measure is “providing information to jobholders whose automatic enrolment is being postponed” which cost £1 million in total to employers of all sizes in 2009/10 prices.

82. Dividing this cost by the volume of firms in 2010 gives an average annual cost per employer of £0.92 for providing information to employees about deferral. Using the OBR’s Autumn Statement 2016 GDP deflator the cost per employer of providing information to employees about deferral is £1.03 in 2017/18 price terms.

83. Multiplying this average cost per employer of sending a deferral of duties letter by the volumes of new employers created from 2017 onwards utilising a deferral period (from paragraph 76), it is estimated that between 2017/18 and 2026/17 there will be **a one-off Administrative cost for employers as a result of deferring the duties worth £0.4 million (in 2017/18 prices)**.

Reduction in employer administrative costs

84. As a result of this policy change, employers would need to enrol fewer employees; since they will not need to enrol employees for the first three months of working and therefore if an employee left employment before the three months were over, or their status changed from being a qualifying worker at the start of the period to non-qualifying at the end of the period, they would not need to be enrolled at all.

[17] http://www.legislation.gov.uk/nisr/2010/123/pdfs/nisrem_20100123_en.pdf

85. The Pensions Act (Northern Ireland) 2012 and corresponding provision in the Pensions Act 2011[18] which first introduced the option of waiting periods to allow employers to defer automatically enrolling employees for up to three months estimated that of 2 million enrolments in steady state, 190,000 were for employees who left within three months.[19]

86. Whilst there is no robust data on the levels of employment churn for newly created employers, the 2011 Workplace Pension Reform impact Assessment[20] stated that small and micro firms in particular benefit from the introduction of a waiting period since they have the highest level of employee churn (with 17 per cent of employees having less than one year's tenure compared to 14 per cent across all firms).[21]

87. Since the majority of new born employers will be small and micro firms, it is expected that they will see particular benefits from the reduced administrative burden of enrolling employees with short service lengths.

88. Deferring the duties also gives employers the flexibility to select any automatic enrolment date within the three month waiting period, which will enable employers to align the automatic enrolment date with their existing payroll cycles. The overall administrative savings from this flexibility are relatively small since employers still have to meet the fixed costs associated with their automatic enrolment duties, such as setting up the scheme.

Impact on Individuals

Number of individuals affected

89. This measure will impact all who are eligible for automatic enrolment working for a newly created employer who chooses to defer their automatic enrolment duties.

90. There is limited evidence on the number of individuals whose automatic enrolment is deferred, however the EPP 2015 evidence in paragraph 76 on the proportion of employers using a deferral period for their automatic enrolment duties is used to estimate the number of employees who will have their automatic enrolment deferred.

91. The number of employees in a new born employer expected to be newly saving is multiplied by the 43 per cent proportion of employers utilising a deferral period, to estimate that 18,000 employees in a newly created employer will have their automatic enrolment deferred in 2017/18, 36,000 employees will be deferred in 2018/19 and 34,000 employees in a newly created employer will have their automatic enrolment duties deferred each year after until 2026/27.

Reduction in total savings into pensions

92. The proposed change will reduce the level of total pension saving (composed of individual contributions, employer contributions and tax relief from the Exchequer on individual contributions). Individuals working for new employers will lose up to three

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[18] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181463/pensions-bill-2011-ia-annexb.pdf

[19] Labour Force Survey (2007).

[20] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181463/pensions-bill-2011-ia-annexb.pdf

[21] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214585/cp-oct10-full-document.pdf

months' worth of their own pension contributions, their employer contributions to pension savings, as well as tax relief on their individual pension contributions; compared to the situation were this measure not to be available to new born employers.

93. Table 7 shows there is an **estimated £102.1 million reduction in the total level of pensions' savings arising for employees of new born employers over the period from 2017/18 to 2026/27**.

Table 7: Estimated reduction in total pension saving as a result of a three month automatic enrolment deferral period, for ten years from 2017/18 (£millions, 2017/18 terms)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Baseline total pension contributions without the option of a deferral period*	4.7	78.5	218.6	324.6	430.7	536.7	642.7	748.7	854.8	960.8
Reduction in total pension contributions	-1.7	-9.0	-11.6	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4

Source: DWP modelling
Costs are presented as negative numbers, benefits as positive numbers.
Figures are rounded to the nearest £100,000 and may not sum due to rounding.
* The baseline total of contributions presents the cumulative amount of total pension saving for individuals employed by new born employers in the do nothing scenario, where employers do not have the option to defer their automatic enrolment duties for up to three months.

Reduction in the receipt of income related in work benefits

94. The proposed change will cause a small increase in the net earnings of employees whose automatic enrolment is deferred for their first three months of employment. This measure will therefore lead to a minimal reduction in the level of in-work benefits 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 individuals and the Exchequer so have not been included in this assessment.

Increase in receipt of income related retirement benefits

95. The proposed change will lead to a decrease in private pension saving as individuals whose employer defers their automatic enrolment duties will have three months less pension contributions; this will have a negligible impact on the level of income related benefits received in retirement.

96. A 2012 impact assessment[22] for a more substantial policy change estimated that a change which reduced overall pension savings by £10.2 billion 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 and decreases pension savings by a significantly smaller amount so the expected increase in receipt of income related retirement benefits would be even smaller.

Social Welfare

97. 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

[22] http://www.legislation.gov.uk/nisr/2012/332/pdfs/nisrem_20120332_en.pdf

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.[23]

98. The proposed changes to the automatic enrolment duties date outlined in this impact assessment will have a negligible cost in terms of a decrease in the value of consumption smoothing.

Impact on the Exchequer

Exchequer savings (individual income tax relief)

99. The proposed changes reduce individual pension contributions from April 2017 and consequently the amount of tax relief granted in that same period will also reduce. Table 8 shows that the proposed change will **save the Exchequer a total of £15.2 million (2017/18 price terms) in reduced individual income tax relief from 2017/18 to 2026/27**.

Table 8: Estimated savings to the Exchequer in reduced tax relief on individual contributions from a deferral of three months, for ten years from 2017/18 (£millions, 2017/18 terms)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Baseline cost of tax relief on individual contributions without the option of a deferral period*	-0.6	-11.4	-32.7	-48.5	-64.3	-80.2	-96.0	-111.9	-127.7	-143.5
Savings in cost of tax relief on individual contributions	0.2	1.3	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7

Source: DWP modelling.
Costs are presented as negative numbers, benefits as positive numbers.
Figures are rounded to the nearest £100,000 and may not sum due to rounding.
* The baseline costs present the cumulative cost of tax relief on individual contributions to the Exchequer in the do nothing scenario, where employers do not have the option to defer their automatic enrolment duties for up to three months.

Savings in income related in-work benefits expenditure

100. 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. So the exchequer would pay out marginally less in-work benefits. This change would be small and represent a transfer between the Exchequer and individuals and so has not been included in this assessment.

Increase in the payment of income related retirement benefits

101. The proposed change will cause a small reduction in private pension saving which will increase the level of income related retirement benefits paid by the Exchequer. However these impacts will be small and are therefore not included in this assessment.

[23] For further explanation of the methodology see Annex H of the 2010 Workplace Pension Reform Regulations Impact Assessment http://www.legislation.gov.uk/nisr/2010/123/pdfs/nisrem_20100123_en.pdf

Impact on pension industry revenue

Reduction in revenue

102. The pensions industry is estimated to see a reduction in revenue from 2017/18 onwards due to this policy change, as a result of the overall decrease in total pension contributions. Evidence from DWP's "Pension Charges Survey 2015: Charges in defined contribution pension schemes"[24] suggests that the average (member weighted) annual charge of automatic enrolment qualifying schemes is 0.49 per cent. The Pensions Charges survey fieldwork was carried out before the introduction of the Charge Cap so consequently these may be slight over-estimates.

103. Multiplying this annual management charge by the estimated reduction in total pension saving in Table 7 (paragraph 93) gives a **decrease in total pension industry revenue of around £1.9 million (in 2017/18 terms) from 2017/18 to 2026/27**.

Reduced cost of administering small pots

104. The 2011 Workplace Pension Reform Act Impact Assessment[25] recognised that allowing employers a deferral period removes the highest "churn" individuals, who move jobs most frequently, from the ranks of new savers affected by automatic enrolment.

105. This means there are likely to be fewer small pension pots for the industry to administer, and a reduction in the administrative costs associated with refunds where an individual opts out soon after being enrolled. That will reduce the costs providers incur, increasing profitability or leading to a reduction in charges for members. This reduction in charges could help to offset the overall reduction in pension saving that a deferral period may create for individuals, though it has not been possible to quantify this impact.

106. Due to the lack of robust evidence on levels of employee churn amongst newly created employers this saving on costs to pension providers cannot be reliably estimated.

Summary of costs and benefits (of both measures)

107. A summary of the central scenario administration and transfer costs and benefits associated with both measures are presented in Table 9. Separate summaries of the costs and benefits of each measure can be found in Annex B.

108. The cost to employers and the Exchequer of bringing forward the duties date is largely offset by the introduction of a deferral period. The increase in total pension contributions received by individuals as a result of bringing forward the duties date is offset by the loss in contributions resulting from the introduction of a deferral period. The majority of the net costs and net benefits resulting from the two measures are income transfers, with gains to employers and the Exchequer offset by losses to individuals and the pension industry. However, once all income transfers are netted out, there is still an administrative saving for employers as a result of the policies.

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[24] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/483179/Pension_charges_survey_2015_charges_in_defined_contribution_pension_schemes.pdf

[25] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181463/pensions-bill-2011-ia-annexb.pdf

Table 9: Summary of the combined central scenario administration and transfer costs and benefits for the proposed measures for ten years from 2017/18 (£millions, 2017/18 terms)

	2017/18	2018/19	2019/20	Annual ongoing costs 2020/21 onwards	**Total**
Employers					
Reduced contribution costs	0.3	2.4	3.0	2.9	26.1
Reduced administration costs	0.2	0.5	0.4	0.4	4.3
Net benefits	*0.6*	*2.9*	*3.4*	*3.4*	*30.4*
Pensions Industry					
Reduced revenue	0.0	-0.2	-0.2	-0.2	-1.8
Net benefits	*0.0*	*-0.2*	*-0.2*	*-0.2*	*-1.8*
Individuals					
Reduced contribution costs	0.4	2.8	3.8	3.7	32.8
Reduction in total contributions into pensions*	-0.8	-6.0	-7.7	-7.6	-67.4
Net benefits	*-0.4*	*-3.1*	*-4.0*	*-3.9*	*-34.6*
Exchequer					
Reduced individual tax relief	0.1	0.9	1.2	1.2	10.3
Net benefits	*0.1*	*0.9*	*1.2*	*1.2*	*10.3*
Overall	**0.2**	**0.5**	**0.4**	**0.4**	**4.3**

Source: DWP modelling
Costs are presented as negative numbers, benefits as positive numbers.
Figures are rounded to the nearest £100,000 and may not sum due to rounding.
* The reduction in total contributions is net of provider charges – so reflects the reduction in pension industry revenue from the amount charged on lower total pension contributions.

Risks and assumptions

109. The present value calculation is particularly sensitive to:

- the number of employers affected,
- the number of eligible workers affected,
- opt-out rates,
- earnings of workers who remain automatically enrolled (for whom employers are required to make minimum pension contributions),
- the proportion of employers using different payroll periods and the proportion of employers likely to utilise a deferral period for their workers.

110. The latest TPR forecasts is used of the number of newly created employers after 2017 and eligible workers employed by these newly created employers. To recognise the uncertainty around the length between an employee's start date and their pay date a range on the point in the pay period when employees start work is presented. Survey evidence and observed opt-out rates to date are used to inform opt-out rates in the analysis (see Annex A).

111. The only available evidence on use of deferral periods comes from the EPP 2015. This gives the proportion of employers who had staged by September 2015 using the deferral period for their automatic enrolment duties. This gives a weighted average for all

employers of 43% using the deferral period. In the absence of any alternative information on take up of deferral or the size profile for new born employers, it is assumed that level of take up of the deferral measure amongst newly created employers will be the same as for staged employers.

112. HMRC Real Time Information is used to inform the approach to employers' use of different payroll periods and to adapt the modelling to account for the impact the length of pay period has on contribution cost changes.

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

113. This assessment has used the available data- ONS Annual Survey of Hours and Earnings (ASHE) 2015 data, Employer Pension Provision (EPP) 2015 survey, Pension Charges Survey 2015, HMRC Real Time Information and - alongside DWP's internal volumes modelling, The Pensions Regulator's 2016 revised employer staging profile and informal engagement with stakeholders to verify the assumptions.

Direct costs and benefits to Business

114. Whilst the first measure places an additional burden on employers, the second measure introduces the option of a deferral period which reduces the burden on employers in a worker's first three months of employment. The burden on employers of the first measure is more than offset by the second, and whilst the second measure imposes some small administrative costs on employers these are outweighed by the large reduction in employer contribution costs.

115. It is estimated that the reduction in contributions and administration costs will save employers an estimated total of £30.4 million in 2017/18 price terms. Using a 10 year appraisal period from April 2017 and a 3.5 per cent discount rate in line with the Treasury's Green Book, it is estimated that as a result of the reduction in direct costs to employers there is an **Equivalent Annual Net Direct Cost to Business (EANDCB) saving worth £2.7 million**.[26]

116. These measures will impact new born employers of all sizes, clarifying the automatic enrolment duties start date and extending an administrative easement that is available to existing employers. The combination of the measures will result in a saving for small and micro new born employers and since the administrative easement is permissive it is assumed that employers will take advantage of the easement where there are net benefits, employers of all sizes are likely to utilise it.

Other Impacts

Equality

117. In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on the legislative proposals for these

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[26] The effect of the measure on pension industry revenue is not included in the EANDCB calculations; this is consistent with the 2016 'Aligning the phased-increase in minimum automatic enrolment contributions with the start of the tax year' Impact Assessment, see http://www.legislation.gov.uk/nisr/2016/316/pdfs/nisrem_20160316_en.pdf

Regulations. As the amendments are technical in nature, they would have little implication for any of the section 75 categories. The Department has concluded that they would not have significant implications for equality of opportunity and considers that an Equality Impact Assessment is not necessary.

Environmental

118. There are no implications.

Rural proofing

119. There are no implications.

Health

120. There are no implications.

Human rights

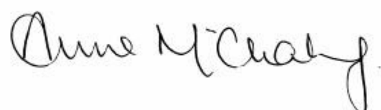
121. The Department considers that the regulations are compliant with the Human Rights Act 1998.

Competition

122. There are no implications.

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed for the Department for Communities



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6 March 2017

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Annex A: Methodology

1. This annex covers the methodology used to estimate the volumes of newly created employers with workers eligible for automatic enrolment, individuals who will be automatically enrolled into a workplace pension and total pension saving[27] in the period from 2017/18 to 2026/27.

Estimating the number of newly created employers and their employees from 2017/18

2. To estimate the number of newly created employers and employees by employer size affected by the proposed policy measure, volume projections from The Pensions Regulator (TPR) are used. The forecast makes use of the latest HMRC Pay-As-You-Earn (PAYE) data and applies employer death, birth and survival rate assumptions.

3. The **eligibility rates** for automatic enrolment, based on the eligibility criteria, are then applied to the employee volumes; determined from the ONS Annual Survey of Hours and Earnings (ASHE) data[28]. This identifies those aged between 22 and State Pension age, who earn over the earnings trigger (£10,000).

4. Assumptions are made about how many people will opt-out of a scheme upon being automatically enrolled by their employer. This analysis assumes an opt-out rate of 10 per cent up to March 2018, 21.77 per cent from April 2018 until March 2019, and 27.5 per cent for each year onward. This is based on evidence from the 2009 survey of individuals' attitudes and likely reactions to the workplace pension reforms (IAS)[29], Employers' Pension Provision Survey (EPP) 2015 [30] and observed opt-out rates to date. This gives the total volume of individuals, working for newly created employers, who are newly saving as a consequence of automatic enrolment.

Estimating workers' average pensionable earnings

5. The average pensionable earnings (an individual's gross salary minus the lower earnings limit of £5,876 up to a capped upper earnings limit of £45,000) of individuals working for different sized employers is determined from the latest ONS Annual Survey of Hours and Earnings (ASHE) data. Individuals' average pensionable earnings are then uprated by earnings growth for future years, using the Office for Budget Responsibility's Autumn Statement 2016 private sector earnings determinants.

Total pension contribution of different groups and total pension saving

6. To calculate the associated pension savings estimates of the proposed policy change, including contributions costs to employers and individuals, a simple equation is used:

Volumes of individuals newly saving **x** average pensionable earnings **x** minimum legal contribution rate

[27] Further details of the sources and methods used are also available in the Impact Assessment that accompanied the Employers' Duties (Implementation) (Amendment) Regulations (Northern Ireland) 2012: http://www.legislation.gov.uk/nisr/2012/332/pdfs/nisrem_20120332_en.pdf

[28] For more details on ASHE methodology, see the ONS documents here: http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Annual+Earnings

[29] Bourne T, Shaw A, and Butt S, 2010, *Individuals' attitudes and likely reactions to the workplace pension reforms 2009: Report of a quantitative survey. DWP Research Report No 669.*

[30] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504346/rr919-employers-pension-provision-2015.pdf

The minimum legal contribution rate is currently at or equivalent to 2 per cent of a band of qualifying earnings[31] (of which at least 1 per cent must be paid by the employer). This is due to rise to 5 per cent in April 2018 (with a minimum employer contribution of 2 per cent) and by April 2019 it will rise to 8 per cent (with a minimum employer contribution of 3 per cent).

7. It is assumed 30 to 40 per cent of employers immediately contribute 3 per cent and workers 5 per cent, based on the EPP 2015 evidence. In 2017/18, the remaining employers and workers contribute 1 per cent of band earnings and in 2018/19, remaining employers contribute 2 per cent and workers 3 per cent of band earnings as outlined in regulations. From April 2019, all employers contribute 3 per cent and workers 5 per cent of band earnings.
8. Estimates of **individual tax relief** are calculated by multiplying the estimates of individuals' additional pension contributions by the appropriate income tax rate.

To note

9. Estimates of the contribution costs and tax relief are uncertain due to the use of modelling techniques that draw on a range of different data sources. Estimates of the impact of this uncertainty on the accuracy of the estimates are not available so some caution should be exercised in interpreting the figures presented.
10. There will be ongoing monitoring of trends within the pension landscape and the economic context into which these reforms will be introduced to continue to improve the understanding of how the reforms will affect employers, individuals and the pensions industry.

[31] The qualifying earnings band is defined as the upper earnings limit (£45,000 in 2017/18) minus the lower earnings limit (£5,876 in 2017/18) 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.

Annex B: Summary of costs and benefits of each measure

1. A summary of the central scenario administration as well as transfer costs and benefits associated with each measure is presented in the following tables.
2. Table B1 shows that for measure 1 (bringing forward the automatic enrolment duties trigger date) the majority of costs and benefits are income transfers with losses to employers and the Exchequer offset by gains to individuals and the pension industry. However, once all income transfers are netted out there is still an administrative saving for employers.

Table B1- Summary of the central scenario administration and transfer costs and benefits for measure 1 (bringing forward the automatic enrolment duties date) from 2017/18 (£millions, 2017/18 terms)

Measure 1 - Change of the employers' AE duties date	2017/18	2018/19	2019/20	Annual ongoing costs 2020/21 onwards	**Total**
Employers					
Increased contribution costs	-0.4	-1.1	-1.4	-1.4	-12.4
Reduced administration costs	0.3	0.5	0.5	0.5	4.7
Net benefits	*-0.1*	*-0.6*	*-0.9*	*-0.9*	*-7.8*
Pension Industry					
Increased revenue	0.0	0.0	0.0	0.0	0.2
Net benefits	*0.0*	*0.0*	*0.0*	*0.0*	*0.2*
Individuals					
Increased contribution costs	-0.4	-1.3	-1.7	-1.7	-15.6
Increase in total contributions into pensions*	0.9	2.8	3.6	3.6	32.7
Net benefits	*0.5*	*1.5*	*1.9*	*1.9*	*17.2*
Exchequer					
Increased individual tax relief	-0.1	-0.4	-0.5	-0.5	-4.9
Net benefits	*-0.1*	*-0.4*	*-0.5*	*-0.5*	*-4.9*
Overall	**0.3**	**0.5**	**0.5**	**0.5**	**4.7**

Source: DWP modelling. Costs are presented as negative numbers, benefits as positive numbers. Figures are rounded to the nearest £100,000 and may not sum due to rounding.

* The increase in total contributions is net of provider charges- so reflects the increase in pension industry revenue from the amount charged on higher total pension contributions.

3. Table B2 shows that for measure 2 (allowing new born employers to defer automatic enrolment duties for newly qualifying workers) the majority of costs and benefits are income transfers with gains to employers and the Exchequer offset by losses for individuals and the pension industry. Once all of these income transfers are netted out, there is a very small administrative cost (£400,000 over the ten year period from 2017/18 to 2026/27) to employers of utilising a deferral period.

Table B2 - Summary of the administration and transfer costs and benefits for measure 2 (allowing new born employers to defer AE duties for newly qualifying workers) from 2017/18 (£millions, 2017/18 terms)

Measure 2 – Use of a three month deferral period	2017/18	2018/19	2019/20	Annual ongoing costs 2020/21 onwards	**Total**
Employers					
Reduced contribution costs	0.7	3.5	4.3	4.3	38.5
Additional administration costs	0.0	0.0	0.0	0.0	-0.4
Net benefits	*0.7*	*3.5*	*4.3*	*4.2*	*38.1*
Pension Industry					
Reduced revenue	0.0	-0.2	-0.2	-0.2	-1.9
Net benefits	*0.0*	*-0.2*	*-0.2*	*-0.2*	*-1.9*
Individuals					
Reduced contribution costs	0.8	4.2	5.5	5.4	48.4
Reduction in total contributions into pensions*	-1.7	-8.8	-11.3	-11.2	-100.1
Net benefits	*-0.9*	*-4.7*	*-5.8*	*-5.8*	*-51.7*
Exchequer					
Reduced individual tax relief	0.2	1.3	1.7	1.7	15.2
Net benefits	*0.2*	*1.3*	*1.7*	*1.7*	*15.2*
Overall	**0.0**	**0.0**	**0.0**	**0.0**	**-0.4**

Source: DWP modelling.
Costs are presented as negative numbers, benefits as positive numbers.
Figures are rounded to the nearest £100,000 and may not sum due to rounding.
* The reduction in total contributions is net of provider charges – so reflects the reduction in pension industry revenue from the amount charged on lower total pension contributions.