Title: Removal of stakeholder designation requirements **IA No:** DWP0005a **Lead department or agency:** DWP **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** September 2012 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries**: Nik Percival (020 7449 7623)

Summary: Intervention and Options

RPC: AMBER

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, One-Out?**	**Measure qualifies as**
£8.7m	£8.7m	- £0.4m	yes	OUT

What is the problem under consideration? Why is government intervention necessary?

Since 2001, employers with five or more relevant employees have been required to offer their employees access to a stakeholder pension scheme and facilitate payroll deductions for contributing members. The legislation does not require employees to join, nor does it require employers to contribute to the scheme. Because too many people are still not saving enough for retirement, starting from October 2012, all employers will be required to automatically enrol qualifying employees into a qualifying workplace pension scheme, and to make a minimum contribution to this. In light of these new obligations, the Government intend to remove the requirement for employers to designate access to a stakeholder pension, although employers can still choose to offer a stakeholder pension if they so wish – to meet their automatic enrolment obligations, or as an additional savings option. If retained, the Government would have two requirements on employers that aim to achieve the same end. Removing these requirements is therefore consistent with the Government's aim of simplifying the pensions system for employers.

What are the policy objectives and the intended effects?

The aim of removing the stakeholder designation requirements is to reduce the regulatory burden on employers – particularly for small employers – in light of (and in advance of) the new obligation on employers to automatically enrol their employees into a pension scheme starting from October 2012.

As well as reducing burdens on employers, the Government are keen to ensure that individuals have an adequate income in retirement. If employees are already contributing into their stakeholder pension scheme by payroll deduction, employers will be required to continue deducting and paying these contributions to the pension provider, until the employee asks the employer not to make a contribution to the stakeholder scheme or ceases to make contributions at regular intervals.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The policy has been considered against the alternative of leaving the existing requirements in place.

As the proposal is to remove requirements that will be superseded upon the introduction of automatic enrolment, no further policy options have been considered.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** April 2018

Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** No	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			**Traded:** N/A	**Non-traded:** N/A	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: Steve Webb Date: 13 Aug 2012

Summary: Analysis & Evidence

Description: Removal of stakeholder designation requirements

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 39	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: 8.7

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

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

None.

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

There may be some small unquantifiable costs for employees – in terms of the time and effort involved in having to locate and set up an alternative personal pension scheme. The Department expects this to be small as personal stakeholder schemes are available from banks, insurance companies and building societies, and can be bought without advice.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low				
High				
Best Estimate	0		1.6	**8.7**

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

New employers with five or more relevant employees will - from October 2012 - not have to designate access to a stakeholder pension scheme (after consulting with their workforce), or facilitate payroll deductions for contributing members. This will generate annual administrative savings until 2018, by which time all new employers will be required to designate access to a pension scheme and facilitate payroll deductions as part of their obligation to automatically enrol their employees into a workplace pension scheme.

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

Removing these requirements will also simplify the pension regulatory system for employers, helping them continue to provide good pension schemes for their employees.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

Assumptions: The estimated savings are sensitive to the Department's assumption of how much time it takes employers to designate access to a stakeholder scheme and facilitate payroll deductions, to meet the existing legislative requirements.

Risks: In the intervening period between the stakeholder pension designation requirements being removed and automatic enrolment being fully rolled-out in 2018, some individuals may not have access to a workplace pension scheme. However, the Department expects the impact to be minimal. Because there is no requirement to join a scheme, only a minority of employees have opted to contribute to workplace stakeholder pension, and those who would have chosen to join will still have the option to contribute voluntarily to a personal stakeholder scheme instead. The Department does not expect individuals to lose out on employer contributions to their scheme. As there is no statutory requirement to contribute to a stakeholder scheme, it is reasonable to expect employers who do so would do so either way - whether they are required to designate access to a stakeholder scheme or not. The evidence suggests that employers who make a contribution to a scheme on behalf of their employees do so generally to look after their employees in retirement (rather than their legal requirements).

BUSINESS ASSESSMENT (Option 4)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0	**Benefits:** 0.4	**Net:** - 0.4	yes	OUT

Background

1. Since 2001, when the stakeholder provisions in the Welfare Reform and Pensions Act 1999 came into force, employers with five or more relevant employees have had an obligation to designate access to a stakeholder pension scheme that their employees could choose to join (although there is no requirement to join, or for employers to contribute to it). This requirement was introduced with a view to improving access to pension provision for individuals without access to a pension. Stakeholder pensions have a number of prescribed quality standards, including a charge cap of 1.5 per cent for the first 10 years, and 1 per cent thereafter.

2. Starting from October 2012, all employers will have new requirements to automatically enrol workers into a qualifying workplace pension scheme and to make a minimum contribution to it. The new duties on employers will be phased in gradually, starting with the largest employers and ending with new employers.

3. When these new obligations first come into force, the Government intend to remove the existing requirement on employers with five or more employees to designate a stakeholder pension scheme (and facilitate any new employee contribution arrangements to that scheme through payroll deductions).

4. Although there will no longer be an obligation to designate access to a stakeholder pension scheme, employers may still choose to do so - to meet their automatic enrolment obligations, or as an additional saving option, if they so wished. The statutory framework for stakeholder pensions remains in force, and the requirements which a scheme must meet in order to be a stakeholder pension scheme are not affected.

5. Removing this requirement will mean that employers no longer have a statutory duty to:

    a. designate a stakeholder pension scheme (after consulting with their workforce about their choice of scheme);

    b. supply information to the designated pension provider, and to employees and organisations representing them; and

    c. offer payroll deductions from employee’s earnings (and maintain records)

6. However, in order to protect those employees who are already contributing into their stakeholder pension scheme by payroll deduction, employers will be required to continue deducting and paying these contributions to the pension provider. This transitional provision will apply until the individuals’ concerned stop paying contributions into their stakeholder pension or leave the employer’s employment. Employers whose employees are covered by this transitional provision will continue to benefit from an existing residual provision freeing them from any duty to investigate or monitor, or make any judgement as to the past, present or future performance of the scheme.

Rationale and Objectives

7. This is one of a series of a measures aimed at reducing regulatory burdens on employers[1]. The existing regulatory system governing occupational pensions has grown incrementally over the course of the past 30 years, and although successive layers have been added with the aim of protecting scheme members it has led, by common consent, to a lengthy, complicated and hard to understand regulatory system.

8. To ease burdens, particularly in light of the requirements for employers to automatically enrol their staff into pension schemes, a rolling deregulatory review of the rules governing private pensions was announced in 2004, with Chris Lewin and Ed Sweeney appointed in December 2006 to act as external reviewers and to make recommendations for change. Their report, *Deregulatory Review of Private Pensions*, was published on 25 July 2007.

9. Subsequently, the Government brought forward a series of deregulatory measures in the Pensions Act 2008 to streamline the regulatory environment, including the planned abolition in 2012 of the requirement to designate a stakeholder pension.

10. The existing requirement for employers with five or more relevant employees to designate a stakeholder pension (unless they provide appropriate alternative pension arrangements) will be superseded by the requirement for all employers to designate a workplace pension scheme to meet their automatic enrolment obligations.

11. Keeping the requirement would add complexity to the private pensions' legislative framework, and potentially create an unintended effect of directing some employers to use a stakeholder pension scheme to fulfil their automatic enrolment requirements - directing an employer's choice in this way or to any specific scheme type could distort the market[2].

12. Removing the requirement is therefore consistent with the Government's aim of simplifying the pensions system for employers, and to help them continue to provide good pension schemes for their employees.

Current position

Stakeholder provision

13. According to the latest Employer Pension Provider survey (EPP)[3], stakeholder pensions (SHP) are currently the most common form of pension provision, with around one fifth of all firms offering access to a SHP scheme.

14. Research has found that the introduction of stakeholder pension schemes has had a number of benefits: first it has led to pension providers adopting a single

[1] Other measures include a reduction in the cap applying to revaluation of deferred pensions, and a repeal of the requirements relating to safeguarded rights – see http://www.dwp.gov.uk/docs/pensionsbillimpactassessmentdec07chapter5.pdf

[2] Employers may still decide that a stakeholder pension is the appropriate scheme for them and their employees, but this would be based on choice rather than any legal requirement.

[3] Forth, J, Stokes, L, Fitzpatrick, and Grant, C, "Employers' Pension Provision Survey 2011, Department for Work and Pensions Research Report No 802, 2012

Annual Management Charge (AMC) pricing structure - making charges more transparent - and second it has reduced the maximum AMC level they could charge[4].

15. However, with no requirement to join and no requirement for employers to contribute, it has not achieved the level of savings necessary for individuals to secure an adequate income in retirement, with the level of employee take-up not as high as anticipated, and too many people still not saving enough into a pension (with stakeholder schemes attracting only two out of every ten employees). Furthermore, there have been some cases where small firms have had difficulty finding a provider willing to serve them[5].

Evidence base for estimated costs and benefits

Number of existing employers affected

16. It is estimated that there are just over 300,000 private sector employers already offering a stakeholder pension to their employees[6] (although many are 'empty shells', with around half - 51 per cent - of those offering a stakeholder pension having no employees participating in it)[7].

17. It is assumed that employers already offering a stakeholder pension will be largely unaffected by the proposed changes; these firms have already designated a stakeholder scheme and the time they spent setting-up the scheme represents a sunk cost. Meanwhile, they will be required to continue facilitating payments into the scheme for employees already making contributions (until the individual concerned stops paying contributions).

18. It is therefore assumed that any benefit is restricted to new firms with five or more employees who are yet to designate a stakeholder pension scheme, in the period before they are required to automatically enrol their employees into a qualifying workplace pension scheme.

Number of new employers affected

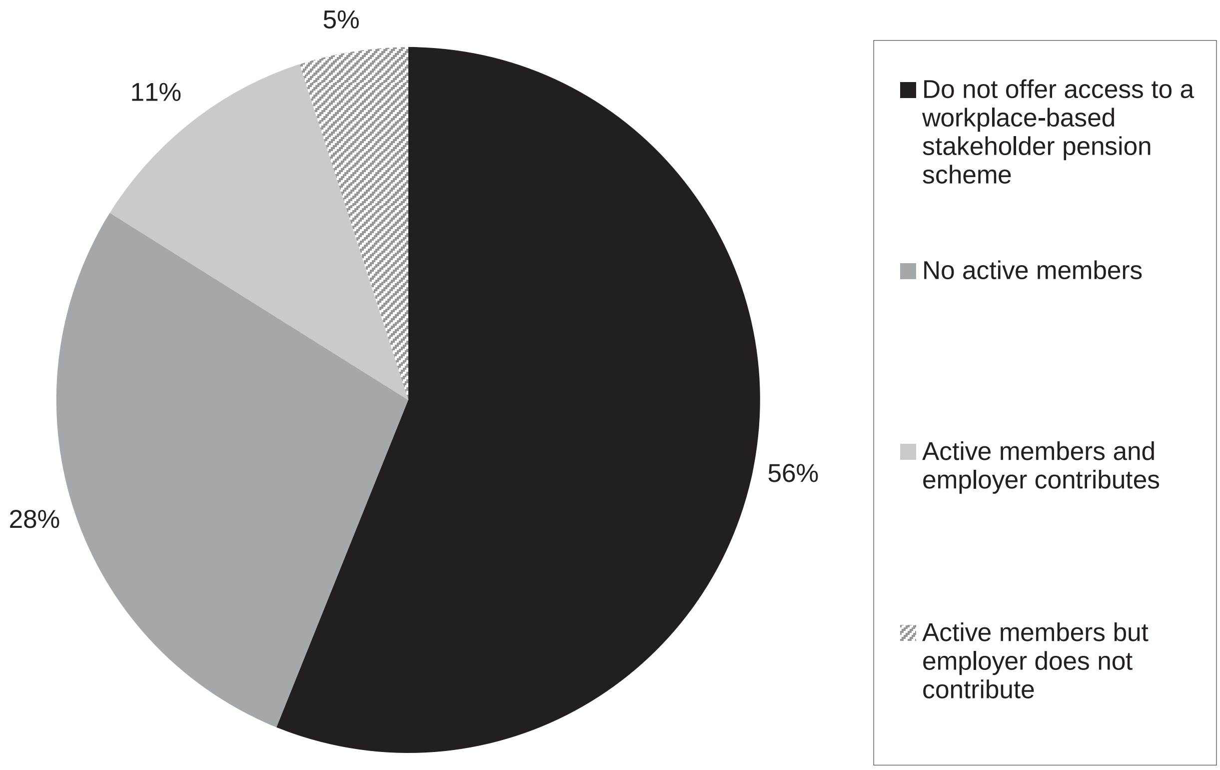
19. To estimate the number of new firms falling within scope of the designation requirements each year, the Department has used data from the Inter-Departmental Business Register (IDBR)[8] on the number of business births. According to data from 2005 to 2009 (inclusive), it is estimated that there are around 20,000 firms with five or more employees newly established each year - 98% of which have fewer than 50 employees, and 99% fewer than 250 employees.

---

[4] Wood, A, Leston, J and Robertson, M, 2009, "Current practices in the workplace personal pension market: Qualitative research with pension providers and intermediaries", Department for Work and Pensions Research Report No 591.
[5] Johnson, P, Yeandle, D and Boudling A, 2010, "Making automatic enrolment work", A Review for the Department for Work and Pensions
[6] According to the Employers' Pension Provision Survey 2011 there were around 1.6 million private sector employers with at least one employee, and 19% of all firms offered a stakeholder pension scheme.
[7] Forth, J, Stokes, L, Fitzpatrick, and Grant, C, "Employers' Pension Provision Survey 2011, Department for Work and Pensions Research Report No 802, 2012
[8] The IDBR is based on inputs from three administrative sources: traders registered for Value Added Tax (VAT) purposes with HMR Revenue and Customs (HMRC), employers operating a Pay as You Earn (PAYE) scheme – registered with HMRC and incorporated businesses registered at Companies house. It covers businesses in all parts of the economy – except some very small businesses and some non-profit making organisations – and provides nearly 99 per cent coverage of UK economic activity.

20. Were the requirements not removed, only a proportion of these firms would have offered a stakeholder pension scheme (e.g. because they offer alternative pension provision which exempts them from the stakeholder requirements). According to the latest Employer Pension Provision (EPP) Survey[9], less than half (44%) of firms with five or more employees offer a workplace-based stakeholder pension scheme – see Chart 1.

Chart 1 Access and contributions to workplace-based stakeholder pension schemes



Source: Employer Pensions Provision Survey 2011, Table 4.1 All firms with 5+ employees

21. Furthermore, a proportion of these firms will choose to offer a SHP scheme even in the absence of their legal requirements.

22. Evidence suggests that the main reason why those with five or more employees currently offer a pension scheme to their employees is because of legal requirements[10]. This reason is much more likely to be given by employers who provide access to a pension but are not contributing to it – in contrast, the main

[9] Forth, J, Stokes, L, Fitzpatrick, and Grant, C, "Employers' Pension Provision Survey 2011, Department for Work and Pensions Research Report No 802, 2012
[10] Thomas, A, and Philpin, C, "Understanding small employers' likely responses to the 2012 workplace pension reforms: Report of a qualitative study, Department for Work and Pensions Research Report 617, 2009

reason for employers who make contributions was to look after their employees in retirement[11].

23. Accordingly, it is assumed that firms that contribute to a stakeholder pension would offer the scheme to employees even in the absence of legal requirements. According to the findings in Chart 1 from the 2011 EPP Survey, around a third of firms with five or more employees offer access to a workplace-based stakeholder pension scheme but do not contribute, whilst 11% do contribute to one.

24. It is therefore assumed that a third of new firms each year (a little over 6,600) are forced to set up a stakeholder pension scheme as a result of the stakeholder designation requirements (the remainder would offer alternative provision or access to a stakeholder pension anyway).

25. This may underestimate the number of new firms affected for two reasons. Firstly, new firms may be even less likely than existing firms to offer a pension scheme even in the absence of legal requirements (research has found that a small minority of firms who do not provide a pension – between 2-4 per cent - do not do so because the firm was only recently established)[12].

26. Secondly, due to data limitations, the Department has not been able to take account of the number of existing micro businesses[13] - who do not currently offer a pension - who will have to meet the requirements each year, because they employ a fifth eligible employee.

27. Taking a cautious estimate of the number of new firms that are forced to set up a stakeholder pension each year will result in an under-estimate of the savings from removing the stakeholder requirements.

28. Only a proportion of the firms that are required to designate access to a stakeholder scheme will subsequently be compelled to facilitate payroll deductions – as indicated above, around a half of all firms offering a stakeholder pension have no employees participating in it.

29. According to the Employers' Pension Provision Survey 2011, only around 15% of the firms with five or more employees who offer a stakeholder pension scheme but do not make a contribution to it have at least one active member. It is therefore assumed that around 1,000 of the approximately 6,600 new firms designating a stakeholder pension scheme would subsequently be required to facilitate payments.

30. ONS estimates of the survival rate of newly born enterprises have then been used to project what proportion of these firms will continue to facilitate payments in future years[14].

---

[11] Grant, C, Fitzpatrick, A, Sinclair, P, and Donovan, J, "Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey, Department for Work and Pensions Research Report 546, 2008

[12] Thomas, A, and Philpin, C, "Understanding small employers' likely responses to the 2012 workplace pension reforms: Report of a qualitative study, Department for Work and Pensions Research Report 617, 2009.

[13] Those with fewer than 5 employees.

[14] http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-229177

Hours spent implementing legislation

31. Previous research has attempted to look into employers' experience of implementing the legislation on stakeholder pensions, but found that very few employers could recall what was involved, or the costs of doing so[15].

32. To choose a scheme, firms can either look at the list of registered stakeholder pension schemes on the Pensions Regulator's website[16], or use the services of an independent financial advisor (IFA) or consultant (the cost of the financial adviser's time would be met by the commission paid by the provider, so in either case the cost to the employer is simply the time they spend choosing a scheme). The time it takes for employers to choose a scheme is likely to vary depending on their (and their employees) level of engagement in choosing a stakeholder pension scheme.

33. It is assumed that it would take an employer four hours on average to designate a scheme, after consultation with employees, and supply the necessary information to their employees and the provider – i.e. to carry out steps a) and b) in paragraph 5 above.

34. In the absence of firmer evidence on times and costs, the Department has sought the views of industry and employers. Discussions with them indicate that four hours is a reasonable assumption, if somewhat conservative and at the lower-end of the time they think it could take employers.

35. Taking a conservative estimate ensures that the savings are not over-estimated and capture only the time it takes to satisfy the legal requirements (firms may spend additional time on selection and consultation if they want to ensure they choose a good scheme for their employees).

36. Meanwhile, the Department has assumed that the time it takes to administer payroll deductions – step c) in paragraph 5 – is between one and half hours a month (for small employers) and 4 hours a month (for medium size employers).

37. Previous research by Durham Business School into the administrative costs of calculating and collecting pension contributions[17] found that these were within the range of times estimated by employers, although a number felt they were too high. However, in recent discussions with industry and employers, it was suggested that these estimates were still reasonable but at the lower-end of what it could take employers.

Hourly costs

38. To convert these estimates of time into costs, the Department has used information from the Annual Survey of Hours and Earnings on the hourly wage of managers, and up-rated these wage costs in line with the latest Office of Budget Responsibility (OBR) forecasts for average earnings growth.

---

[15] Thomas, A, and Philpin, C, "Understanding small employers' likely responses to the 2012 workplace pension reforms: Report of a qualitative study, Department for Work and Pensions Research Report 617, 2009.
[16] http://www.thepensionsregulator.gov.uk/doc-library/stakeholder-pensions/registerSearch/SchemeList.aspx
[17] Stone, I, Allison, G, Braidford, P, and Houston, M, "Anticipated administrative burdens on business of proposed personal accounts arrangements", Durham Business School, 2007

Estimated costs and benefits

39. Based on the assumptions above regarding;

    a. the number of firms that would be required to designate a stakeholder pension scheme and the number that would have to facilitate payroll deductions each year;

    b. the number of hours it would take employers to carry out these functions;

    c. the hourly wage rate of managers;

The Department estimates that removing the stakeholder designation requirements will generate an average annual saving to employers of just over £1.5 million (in 2012 constant prices), between October 2012 and 2018.

Table 1: Estimated savings to employers from removing the stakeholder designation requirement

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Estimated Savings	£0.5m	£1.2m	£1.5m	£1.9m	£2.2m	£2.4m

Notes:
(1) Savings presented in constant (2012) prices, and rounded to the nearest £0.1m
(2) Estimate of the number of employers that would have been affected by legislative requirements based on data from the Inter-Department Business Register and Employers Pension Provision Survey 2011.
(3) Estimate of the number of hours employers spend meeting legislative requirements based on discussions with industry.
(4) Hourly costs based on data from Annual Survey of Hours and Earnings, and increased in line with latest OBR average earnings growth forecasts

40. The annual savings are slightly lower than average in the first few years and slightly higher in the later years both because the number of firms no longer having to facilitate payroll deductions increases each year[18], and because administration costs are expected to increase in line with earnings growth.

41. The Department's estimate has been revised down from the one published in the Pensions Act Impact Assessment 2008[19]. The original assessment estimated savings around £12 million a year, arising in two parts: first, new employers no longer incurring the cost of designating a stakeholder scheme; second, as people move jobs, fewer employees actively save in existing stakeholder schemes, reducing administrative costs from facilitating payroll deductions.

42. These savings will however be replaced by the cost of setting up a pension scheme and administering payroll deductions for automatic enrolment instead. Employers can either use an existing scheme (including a stakeholder pension) – if it qualifies - or set up a new scheme. If they use an alternative scheme, they

[18] In year one firms newly established in 2012 avoid facilitating payroll deductions, In year two firms newly established in 2013 avoid them, as do those firms established in 2012 who have survived. And so on. Because the cost of designating a stakeholder pension is a one-off cost, the savings from this are in contrast relatively constant.
[19] http://www.dwp.gov.uk/docs/pensionsbillimpactassessmentdec07chapter5.pdf

are likely to be exempt from the stakeholder pension requirements[20]. Existing firms will be required to meet these requirements gradually from October 2012, whilst all new firms will be required to do so from 2018.

43. To account for these offsetting costs, and to ensure consistency with the Department's latest estimate of the administrative costs to employers of complying with automatic enrolment, the Department has restricted its estimate of the savings from removing the stakeholder designation requirements to new firms with five or more employees not having to designate a stakeholder pension scheme or facilitate payments in the six years between 2012 and 2018 – i.e. during the period between the stakeholder requirements being removed and the point at which new firms are required to meet their automatic enrolment obligations.

44. The updated estimate also reflects latest evidence on the number of newly established firms each year, and adjusts this to reflect the fact only a proportion of these would need to designate a stakeholder pension scheme.

Impact on members

45. For employees already contributing into their stakeholder pension scheme by payroll deduction, the removal of the requirement to designate a pension scheme will have little impact as they can continue to contribute to the scheme and their employer will still be required to continue deducting and paying these contributions to the pension provider.

46. Employees not yet contributing may lose out on the opportunity to enrol into a workplace-based pension scheme during the period before their employer has to comply with automatic enrolment. However, the Department expects that the impact of this will be minimal, as participation is voluntary and individuals who would have chosen to enrol will still have the option of contributing voluntarily to a personal stakeholder pension scheme instead (and these schemes will still be governed by the same legislation in terms of the requirements for a stakeholder scheme).

47. As previously reported, employee take-up is already low, with half of employers offering a stakeholder pension have no employees participating in it. Meanwhile, the Pension Commission concluded that stakeholder pensions had "not achieved any measurable increase in participation" and "the 'new premiums' which have gone into Stakeholder Pensions include a large element which previously were going into other types of pension scheme. There is little evidence of a net increase in ongoing pension contributions flowing into personal and GPPs as a result of the introduction of Stakeholder pensions"[21]. On that basis, the Department has concluded that there is good reason to believe that individuals who voluntarily contribute to a workplace stakeholder scheme would instead contribute voluntarily to a personal scheme.

48. As many employees currently choose to contribute to – and therefore reveal a preference for - a workplace stakeholder scheme, they may still incur some loss from having to choose a personal stakeholder scheme instead. In particular, this

[20] Employers are exempt from the stakeholder designation requirements if they offer an alternative scheme which satisfies certain criteria (including the employer contributing at least 3% of basic pay to the scheme).
[21] Pensions: Challenges and Choices, The First Report of the Pensions Commission, 2004, p.92

could be in the form of the additional time and effort that is involved in having to locate and set up a personal scheme. The Department does not have evidence to quantify this[22], although it expects the impact to be small, as personal stakeholder pensions can be bought from banks, insurance companies and building societies, and can be bought without advice[23] - making them accessible to those who can't afford or don't want to pay for financial advice. Therefore, whilst not all of the individuals who would have contributed to a workplace pension will join a personal pension instead, the Department would expect the vast majority to do so due to the small additional search costs involved to source a personal pension.

49. The Department has also assessed the risk that some of these individuals will lose out on employer contributions, if they can only participate into a personal stakeholder scheme. Given that there is currently no requirement for employers to make a contribution to a stakeholder pension scheme, it is reasonable to expect that employers who choose to do so would continue to make a contribution on behalf of their employees whether or not there was a legislative requirement to designate access to a stakeholder scheme. This is backed up by research findings that show the main reason why contributing employers offer access to a pension scheme is to look after their employees in retirement[24], and that employers who provide a stakeholder pension because they are legally obliged were unlikely to make a contribution[25].

50. The Department has therefore concluded that the removal of the requirement for employers to designate a stakeholder scheme will have little impact on the number of individuals saving into a pension or the amount that is contributed to pension schemes – although there may be a small unquantifiable impact from removing access to a workplace scheme and requiring them to locate and set up a personal pension scheme instead.

Small business impact

51. Employers with fewer than five employees (micro businesses) are already exempt from the requirement to designate a stakeholder pension scheme, and so are not in scope of this change.

52. As indicated above, almost all new firms that will benefit from no longer having to designate a stakeholder pension scheme are small employers (i.e. with fewer than 50 employees). Therefore, the measure will mainly benefit small employers (those with fewer than 50 employees).

53. These benefits will help small firms in the period before they have to comply with new requirements to automatically enrol eligible workers into a qualifying

[22] The time that employers spend setting up a scheme is not necessarily informative. Employers have certain responsibilities, such as consulting with employees on their choice of scheme, which individuals will not have when choosing a personal scheme. For employees it is the additional time, over and above what they would have spent considering and enrolling into the employers designated scheme that matters.

[23] Most pension products are provided on an advised basis only

[24] Grant, C, Fitzpatrick, A, Sinclair, P, and Donovan, J, "Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey, Department for Work and Pensions Research Report 546, 2008

[25] Tredwell, L and Thomas, A, "Understanding employers' likely responses to the workplace pension reforms 2007: Report of a qualitatitive study, Department for Work and Pensions Research Report 547, 2008

workplace pension scheme and contribute a minimum towards it (and because these automatic enrolment requirements are introduced later for small firms, they will benefit from it for longer than larger firms).

One-in One-out

54. The net present value to business of removing the stakeholder designation requirement is estimated to be £8.7 million over the 6 years from 2012 to 2018. The Equivalent Annual Net Cost to Business - expressed over 39 years (to be consistent with other workplace pension reform impact assessments) - is estimated to be - £0.4 million (i.e. a saving).

Regulatory Policy Committee Opinion

Regulatory Policy Committee	**OPINION**	
Impact Assessment (IA)	Removal of stakeholder designation requirements	
Lead Department/Agency	Department for Works and Pensions	
Stage	Final	
Origin	Domestic	
Date submitted to RPC	13/08/2012	
RPC Opinion date and reference	03/09/2012	RPC12-DWP-1463(2)
Overall Assessment	**AMBER**	

The IA is fit for purpose. Most of the issues raised in our previous Opinion (03/08/2012) have been adequately addressed. However, the IA should provide further information to support the assumption that a take-up rate of 100% for certain category of employees is reasonable and/or provide sensitivity analysis around this assumption.

Identification of costs and benefits, and the impacts on small firms, public and third sector organisations, individuals and community groups and reflection of these in the choice of options

Most of the issues raised in our previous Opinion (03/08/2012) have now been addressed. In particular, the time period over which Equivalent Annual Net Cost to Business (EANCB) is assessed has been amended to reflect that the proposed measure is part of the policy of pension auto-enrolment.

Impact on employees. The revised IA goes some way in better explaining why it is considered that there will only be negligible costs to employees. In particular, the department states that there is no requirement to contribute to a workplace stakeholder pension scheme under the current arrangements and that it is reasonable to assume that all employees in the current scheme will now contribute voluntarily to a personal pension scheme. However given that there will be, for example, search costs to employees the IA would be improved by providing more information to support the assumption that a take-up rate of 100% for these employees is reasonable. Alternatively the IA would be improved by providing sensitivity analysis around this assumption.

Have the necessary burden reductions required by One-in, One-out been identified and are they robust?

The IA says that the proposal is a deregulatory measure that has a direct net benefit to business (an ‘OUT’) with an Equivalent Annual Net Cost to Business (EANCB) of (-)£0.4m. This is consistent with the current One-in, One-out Methodology (paragraph 18) and provides a reasonable assessment of the likely impacts.

Signed	**Michael Gibbons,** Chairman