Title: Lifting annual contribution limits and transfer restrictions on National Employment Savings Trust (NEST)

IA No: DWP0039

Lead department or agency:

DWP

Other departments or agencies:

Impact Assessment (IA)

Date: 20/11/2014

Stage: Final

Source of intervention: Domestic

Type of measure: Secondary Legislation

Contact for enquiries: Amra Adam (amra.adam1@dwp.gsi.gov.uk)

Summary: Intervention and Options

RPC: Awaiting Scrutiny

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, One-Out?**	**Measure qualifies as**
Not quantified[1]	£0m	£0m	YES	OUT

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

NEST is a pension scheme established under the Pensions Act 2008 to support Automatic Enrolment (AE) to address a market failure for low to moderate earners and smaller employers. NEST has a Public Service Obligation (PSO) to admit any worker regardless of profitability. To focus NEST on its target market, there are some constraints, imposed through legislation, including an annual contribution limit and transfer restrictions. DWP undertook a call for evidence to assess whether these two constraints were preventing the delivery of the PSO during the roll out of AE. This revealed a perception that some smaller employers - with "higher" earners or existing schemes could not use NEST or would face extra administrative costs in having to run two schemes, something that could influence employers' choice of scheme.

What are the policy objectives and the intended effects?

The policy objectives of removing the constraints in 2017 (subject to Parliamentary approval) are to:

- ensure NEST effectively supports the introduction of AE and delivers its PSO for its target market of low to moderate earners and smaller employers.
- address any perceptions smaller employers may have about these two constraints being a barrier to using NEST for AE.
- enable employers and individuals using NEST for AE to choose to contribute more than the minimum and consolidate pension savings.

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

Four options were considered: do nothing, wait for the 2017 statutory review; remove from 2014; legislate now to remove from 2017. DWP concluded that legislating now to remove these constraints in 2017 was a balanced approach. Small employers in NEST's target market start to automatically enrol their workers from June 2015, legislating now will address any perception that the contribution limit and transfer restrictions are now or will be a barrier to them using NEST for AE. There is no evidence to suggest that removing these constraints in 2017 would give NEST an unfair advantage in the market. By April 2017 all existing employers would have selected a scheme to meet the AE duties. Leaving them in place beyond 2017 would not be consistent with the Government's broader policy objectives, stopping individuals saving more and preventing consolidation of pension pots. The European Commission confirmed that removing these constraints in 2017 does not alter their approval of State aid afforded to NEST.

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

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**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, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY:  ate: 01/12/14

[1] It is not possible to quantify the indirect benefits to employers and individuals of removing the NEST constraints. The total net present value is therefore not quantified.

URN 11/1109 Ver. 3.0

Summary: Analysis & Evidence

Policy Option 1

Description: Do nothing

FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2017	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	**High:** 0	**Best Estimate:** N/A

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

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

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

Employers that have already passed their AE staging date and enrolled eligible workers into NEST will not require a change to administrative systems. Any familiarisation with the revised legislation can be incorporated into existing material from NEST. Employers who commence AE after the changes are implemented will not be subject to transitional or familiarisation costs. The evidence suggests that the pensions industry will not be affected by these changes as employers rarely switch between schemes.

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

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

N/A

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

Removing the annual contribution limit provides indirect benefits to those savers who increase their pension pots due to higher contribution rates. Individuals will be able to consolidate their pension pots, giving them grater clarity over their total pension savings. The ability to consolidate savings will increase clarity over individuals' pension savings. There are also potential indirect benefits for employers from having clarity that the annual contribution limit will not have any bearing on them or their workers in the long term.

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

N/A

BUSINESS ASSESSMENT (Option 1)

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

Evidence Base (for summary sheets)

Background

1. Automatic enrolment commenced in July 2012 with the largest employers and all employers that existed in April 2012 required to meet the duty to enrol their workers into a qualifying workplace pension scheme by April 2017. Around 1.2[1] million employers will ultimately be affected and over 99 per cent of these will be small and medium sized employers (SMEs)[2] who have fewer than 250 workers. Around 10 million people will be eligible for automatic enrolment[3], with 8 to 9 million people newly saving or saving more,[4] generating around £11 billion a year with a range of £8bn to £12bn in additional workplace pension saving.[5]
2. The National Employment Savings Trust (NEST) was established under section 67 of the Pensions Act 2008 to underpin automatic enrolment by providing a quality, low-cost pension scheme with a Public Service Obligation (PSO) to ensure all employers have access to a scheme with which to meet the new employer duties regardless of the size or profitability of their workforce. DWP estimates that NEST will have 2 to 4 million members[6] and around 750,000[7] participating employers[8] when roll out of automatic enrolment is completed. NEST is focused on a **target market of low to moderate earners and smaller employers** who the market served inefficiently or not at all. NEST receives State aid approved by the European Commission[9] as a consequence of its PSO.
3. A number of constraints were placed on NEST in legislation[10], including an annual contribution limit and restrictions on transfers. During the implementation of automatic enrolment these two constraints were intended to ensure NEST focussed on its target market, provide market stability and make the scheme administratively simpler to operate. The annual contribution limit restricts the amount of contributions that can be attributed to a member's account in any one financial year - currently £4,600 in 2014/15. The transfer restrictions prevent individuals who are members of NEST initiating a transfer into or out of the scheme (except in very limited circumstances) to consolidate their pension pots. They also prevent employers who are using NEST from transferring members' rights in the employer's existing scheme to NEST or alternatively transferring rights out of NEST without the members' consent. These two constraints, although not integral to the case, were cited by the European Commission as important measures in balancing any competitive advantage in their approval of State aid for NEST.
4. The original intention was to review these two constraints in 2017 when implementation of automatic enrolment was scheduled to complete. The expectation was that these two constraints would be lifted during 2017 as all existing employers would have chosen their pension scheme for automatic enrolment and the market would begin to settle into a new equilibrium. Section 74 of the Pensions Act 2008 reflects this expectation providing for a statutory review of NEST including the impact of the annual contribution limit and transfer restrictions in 2017. This was reinforced by the independent *Making Automatic Enrolment Work Review* in 2010[11], which recommended that: legislation should make it clear that NEST's 'contribution cap' will be removed in 2017; and, Government and regulators should review as a matter of some urgency how to ensure that it is more straightforward for people to move their pension pot with them as they move employer, so that by the time of the 2017 review the more general issue of pension transfers has been addressed and NEST is able to receive transfers in and pay transfers out.
5. However, as automatic enrolment started to roll out, concerns were raised that these two constraints were acting as a barrier to smaller employers and those employers with workers in NEST's target market accessing NEST. DWP undertook a call for evidence during 2012/2013 to assess whether these two constraints were preventing NEST from delivering its PSO for its target market during the implementation of automatic enrolment. A wide range of views, evidence and information was

[1] This was subsequently revised to 1.3 million by The Pension Regulator (TPR), http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-employer-staging-forecast.pdf
[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209864/ad-hoc-supporting-ae-further-analysis.pdf
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266348/review-of-ae-earnings-trigger.pdf
[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323953/dwp-annual-report-accounts-2013-2014.PDF
[5] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223031/wpr_digest_0712.pdf
[6] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223031/wpr_digest_0712.pdf
[7] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209864/ad-hoc-supporting-ae-further-analysis.pdf
[8] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209864/ad-hoc-supporting-ae-further-analysis.pdf
[9] http://europa.eu/rapid/press-release_IP-10-899_en.htm
[10] http://www.legislation.gov.uk/ukdsi/2010/9780111490495/contents, http://www.legislation.gov.uk/ukpga/2008/30/contents
[11] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214585/cp-oct10-full-document.pdf

gathered. This included information gathered through: over 50 formal written responses from a diverse range of organisations and individuals; detailed discussions at forums run by the Automatic Enrolment Programme with employers, trade bodies and pension intermediaries; and in-depth follow-up discussions with a range of stakeholders.

The evidence showed that the annual contribution limit and the restrictions on transfers should not be a barrier for low to moderate earners and smaller employers accessing NEST in practice. However, the evidence also showed that employers and other stakeholders perceived these two constraints as complex and potentially problematic and that there is a real risk that this could mean that intermediaries that engage with smaller employers and smaller employers themselves will be put off from using NEST even if their workforce is in NEST's target market and is unlikely to be affected in practice by the constraints. This could increase the complexity of employer choice, something which it is intended should be as straightforward as possible, to minimise the time and costs associated with setting up an automatic enrolment scheme.

The problem

6. For automatic enrolment to be successfully rolled out, NEST must effectively deliver its PSO, ensuring that supply gaps are addressed during implementation so that its target market has access to quality, low-cost pension provision. The most critical operational challenge for NEST in delivering its PSO will be between June 2015 to April 2017 when small and micro employers (those in NEST's target market) start to automatically enrol their eligible workers.

7. The problem identified by the Department's Call for Evidence was a perception that the annual contribution limit and transfer restrictions are a barrier to smaller employers using NEST for automatic enrolment. This perception appeared to be widespread even though the actual effect of these two constraints would not prevent any employer meeting the minimum automatic enrolment requirements.

8. Table 1 below sets out staging dates by employer size i.e. when they are brought into automatic enrolment.

Table 1: Employer Staging Dates

Employer Size	Automatic Enrolment Staging Date
Large Employers (250 or more workers)	October 2012 to February 2014
Medium employers (50 – 249 workers)	April 2014 to April 2015
Small employers (49 workers or less)	June 2015 to April 2017
New employers (established after April 2012)	May 2017 to February 2018

9. There are around 1.1 million small and micro employers (fewer than 50 workers)[12] who will need to automatically enrol their eligible workers in the next 3 years. Implementation on this scale needs NEST – the only scheme with a PSO - to be able to play its part in meeting this implementation challenge. It is this segment of the market where profitability and provider capacity will have the greatest effect on implementation of automatic enrolment and where there is most likely to be a supply gap which is the underlying rationale for establishing NEST with its PSO to admit any employer.

10. However, removing these two constraints immediately as a result of a perception would not be a proportionate response and could divert NEST's attention away from its key objective to support its target market during roll out of automatic enrolment. Conversely, doing nothing to address the perception creates a risk for the implementation of automatic enrolment. Small employers have limited experience of providing pensions for their workforce; they will have a more limited choice of provider than larger employers as the profitability of their workforces and the capacity of providers to meet demand both reduce. If NEST – the only scheme who has to admit any employer - is perceived by these employers as not being a suitable scheme for all their workers, this could complicate employer choice, damage confidence in automatic enrolment and undermine the aims of the reforms.

11. Furthermore, in the longer term these constraints will stop individuals who have been automatically enrolled into NEST by their employers saving more and prevent consolidation which is not consistent with broader pensions policy objectives.

The policy objective

12. The policy objective is to ensure that the remaining roll out of automatic enrolment is as smooth as possible, that smaller employers are able to secure good quality, low cost pension provision and that NEST is able to deliver its PSO and play its part in supporting smaller employers to meet their new duties during the remaining roll out of automatic enrolment. It also ensures that those employers who do choose NEST and the workers that they enrol into NEST will not be disadvantaged in the longer term.

13. The proposal leaves the annual contribution limit and transfer restrictions in place until all employers that existed in April 2012 have automatically enrolled their workers (April 2017) but brings forward the legislation now to remove these two constraints from April 2017 to combat the perception of smaller employers that these two constraints are a barrier to them using NEST.
14. This package of secondary legislation delivers on the commitments set out in the Government's 2013 Command Paper (Cm 8668). This approach was broadly welcomed by stakeholders.

Monetised and non-monetised costs and benefits

Impact on the pensions industry

15. Automatic enrolment is transforming the UK's pensions landscape and is leading to much higher participation in all workplace pension schemes. DWP estimates that this will result in an additional £11 billion a year with a range of £8 to £12 billion[13] invested in workplace pensions in steady state from 2019/20. The whole of the workplace pensions industry is benefitting from the policy.

16. By April 2017, all employers in existence since April 2012 will have chosen a scheme with which to meet their automatic enrolment duty. From then it is important that employers and industry are able to build on the introduction of automatic enrolment, encouraging increased pension saving and the consolidation of small pension pots.

Restrictions on Transfers

17. There is no evidence to suggest that removing the restrictions on individuals initiating transfers into and out of NEST from April 2017 will have any bearing on an employer's choice of scheme for automatic enrolment. Research by the Pensions Regulator has found that the majority of intermediaries - i.e. consultants, IFAs, administrators and HR professionals - believed that cost would be the employer's main consideration when selecting a scheme. This factor was mentioned most

[12] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209864/ad-hoc-supporting-ae-further-analysis.pdf
[13] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223031/wpr_digest_0712.pdf

often by all intermediary types – ranging from 43% of pension consultants to 57% of HR professionals, whilst only 8-12% cited cost to the employee would be the main factor.[14]

18. Consolidation of existing rights by an employer is not a compulsory consequence of choosing a scheme for automatic enrolment purposes. DWP analysis[15] shows that only around 15,000 employers currently provide trust-based workplace pension schemes that could be transferred to another pension provider out of 192,000 who have substantial existing provision (see Table 2 below). Of these, around 14,000 are SMEs and potentially in NEST's target market. DWP estimates[16] around 5,000 of these 14,000 might consider a bulk transfer of their workplace pension provision to NEST, equivalent to less than 1 per cent of all firms.

Table 2: Employer pension provision

Employer size	Employers not providing workplace pensions	Employers providing workplace pension	Employers providing DC Trust pensions
1 to 4	675,000	60,000	5,000
5 to 9	184,000	45,000	2,000
10 to 19	79,000	38,000	3,000
20 to 49	40,000	23,000	1,000
50 to 249	12,000	20,000	2,000
Total less than 250	990,000	187,000	14,000
250+	2,000	5,000	1,000
Overall Total	992,000	192,000	15,000

Note: components may not sum to totals due to rounding

19. DWP research[17] also shows the average year of commencement of current schemes is 1993 for trust-based schemes and 2001 for contract-based schemes. Furthermore, evidence[18] collected by The Office of Fair Trading (OFT) suggests that there is relatively low likelihood of employers switching schemes once they have set one up and that switching is focussed on larger schemes. The OFT estimates that the average annual rate of switching all accumulated assets in schemes for the four calendar years from 2009 to 2012 was around 3.60 per cent of schemes and 6.69 per cent of assets. Given that the percentage of assets that switched providers between 2009-2012 is significantly higher than the percentage of schemes that switched, larger schemes with a greater level of Assets Under Management (AUM) are more likely to switch provider.

20. The available evidence therefore suggests that allowing employers to transfer existing schemes into NEST will have a negligible impact on the pensions industry. Combined with the cost of switching provider, only a very small proportion of employers could transfer an existing scheme into NEST and employer inertia means few employers are likely to switch scheme once the roll out of automatic enrolment is complete.

Annual Contribution Limit

21. It is possible that legislating now to lift the annual contribution limit in April 2017 may have a marginal effect on the choice of automatic enrolment scheme by some small and micro employers. Large and medium sized employers who have already chosen a scheme for automatic enrolment will not be affected by the proposal. DWP estimates[19] that 60% - 70% of micro employers (those with fewer than 10 workers) and between 45% - 50% of small employers (those with between 10 and 49 workers) will use NEST for automatic enrolment. If these small and micro employers experience difficulties

[14] The Pensions Regulator, August 2012, *Intermediaries' awareness, understanding and activity relating to workplace pension reforms, Spring 2012*
[15] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209864/ad-hoc-supporting-ae-further-analysis.pdf
[16] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209864/ad-hoc-supporting-ae-further-analysis.pdf
[17] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193451/rrep804.pdf
[18] http://webarchive.nationalarchives.gov.uk/20131101164215/http:/www.oft.gov.uk/shared_oft/market-studies/oft1505
[19] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209864/ad-hoc-supporting-ae-further-analysis.pdf

implementing automatic enrolment because they perceive that the annual contribution limit means that NEST is unsuitable for them as a workplace pension scheme, it could complicate scheme choice, damage confidence and undermine the longer term aims in the reforms.

22. Of the 1.2 million employers affected by automatic enrolment, over 1.1 million are employers with less than 50 workers.[20] Unlike large employers who almost all have an existing relationship with a pension provider, 990,000 SME's (fewer than 250 workers) do not currently offer a workplace pension[21]. Inexperience of pensions, combined with reduced provider supply and capacity, could make scheme selection and implementation of automatic enrolment very challenging for these employers. It is vital to the success of automatic enrolment that NEST with its PSO is seen as a viable option for these small and micro employers. In relation to the annual contribution limit, the reported perception was that small and micro employers could not use NEST as a single scheme for automatic enrolment where they employed "higher earners".

23. Taken together, this suggests that lifting these two constraints in April 2017 would have **no direct impact** on other pension providers and is unlikely to cause disruption to the workplace pensions industry.

Employers

24. Employers can continue to choose which qualifying pension scheme to automatically enrol their workers. Research suggests that 70 per cent of SMEs expect to contribute the legal minimum employer contributions[22]. In addition 84 per cent of workers in the private sector eligible target group for automatic enrolment earn under £30,000[23] and so are unlikely to be in breach of the annual contribution limit.

Table 3: Percentage contributions on earnings above lower qualifying band required to reach the annual contribution limit

Gross Annual Earnings	**£15,000**	**£26,000 (Median)**	**£30,000**	**£45,000**	**£60,000**
Earnings Above Lower qualifying band	£9,332	£20,332	£24,332	£39,332	£54,332
Contributions as a percentage of qualifying earnings	48%	22%	18%	11%	8%

25. Table 3 shows the percentage contributions required to reach the annual contribution limit for a range of incomes, based on contributions above the lower limit of the qualifying earnings band. A low to median earner would need contributions of 48 per cent and 22 per cent to breach the contribution limit . However, the perception identified by the call for evidence was that employers with "higher earners" could not use NEST, even if they only wanted to contribute the mandatory minimum – 8 per cent on a band of qualifying earnings between £5,772 and £41,865 (2014/15).

26. Despite this, employers' perceptions could lead to additional and unnecessary administrative costs if they decide they need to implement a two scheme solution because NEST is perceived as not being suitable for all their workers. Addressing the perception that smaller employers would find it difficult or impossible to use NEST as a single scheme solution will give smaller employers clarity when making a decision about which workplace pension scheme is right for their workers without having to incur any unncessary cost.

27. There are therefore potential **indirect** benefits for employers from having clarity that the annual contribution limit will not have any bearing on them or their workers if they only want to contribute the minimum required and, in the long term there may be benefits of sending a clear signal to employers that they can move towards more generous contribution levels in the future if they choose.

28. Further, indicating that NEST will be able to support employers who may wish to undertake a transfer of an existing scheme may also provide **indirect** benefits to employers who have chosen NEST for

[20] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209864/ad-hoc-supporting-ae-further-analysis.pdf
[21] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209864/ad-hoc-supporting-ae-further-analysis.pdf
[22] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209865/ad-hoc-supporting-ae-smes.pdf
[23] http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2012-provisional-results/stb-ashe-statistical-bulletin-2012.html#tab-Annual-earnings

automatic enrolment and have an existing scheme which they could consider transferring to NEST. Consolidating occupational pension schemes may deliver administrative savings to employers.

29. Our best estimate is that there will be **zero transitional costs** imposed through lifting of these two constraints. Employers that have already passed their staging date and enrolled their workers in NEST will not require a change to their administrative systems. Employers that are captured by automatic enrolment after these two constraints are removed in 2017 are unaffected by the changes as they do not have to make any adjustments.

30. We have considered the issue of familiarisation costs, for example, for employers to familiarise themselves with changes in legislation. We consider them to be **zero** because employers who have already passed their staging date can receive communication through existing material from NEST. Employers that are affected after the constraints are removed in 2017 would need to familiarise themselves with the relevant literature anyway so we are not imposing any additional burden on these employers.

Individuals/savers

31. Although the annual contribution limit is reviewed annually in line with earnings (the 2014/15 limit is £4,600), few in NEST's target market are likely to breach it (see Table 3 above). No one who only contributes current mandatory minimum contributions[24] of 2 per cent on a band of earnings (between £5,772 and £41,865 in 2014/15; reviewed annually) will breach the limit.

32. However, minimum contributions levels are being phased in to help both employers and individuals adjust gradually to the additional costs of the reforms. From October 2017, minimum contributions will increase to 5 per cent of the band and from October 2018 to 8 per cent of the band.

Table 4: Contributions on all earnings over the lower limit (£5,772) of the qualifying earnings band over the implementation period at different levels of annual earnings

Implementation period	Total contribution rate (%)	Gross annual earnings				
		£15,000	£26,900 (median)	£30,000	£45,000	£60,000
Oct 2012 – Sept 2017	2%	£185	£423	£485	£785	£1,085
Oct 2017 – Sept 2018	5%	£461	£1,056	£1,211	£1,961	£2,711
Oct 2018 onwards	8%	£738	£1,690	£1,938	£3,138	£4,338

Source: DWP Analysis

33. Table 4 shows that the annual contribution limit is set at a level which allows additional voluntary contributions for NESTs target market of low to moderate earners on top of the current legal minimum contribution rate of 2 per cent, but as contribution rates increase, the gap between the limit and contributions made at the minimum rate narrows. DWP research[25] found that 48% of people who intended to stay in saving after being automatically enrolled were planning to contribute more than the minimum. The contribution limit could therefore potentially disadvantage NEST members by restricting what they could voluntarily pay into their pot and also preventing employers moving towards more generous contribution levels in the future, if they wish to do so.

34. Removing the annual contribution limit provides **indirect benefits** to those savers who increase their pension pots due to higher contribution rates.

[24] Mandatory contributions increase to a total of 5% with at least 2% from the employer from October 2017, and to a total of 8% with at least 3% from the employer from October 2018.

[25] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214440/rrep669.pdf

35. The ability to consolidate pension savings is also important to consumers' interests. Pension savings left behind in previous workplace pension schemes risk being lost, and research[26] shows that one in six individuals have lost track of a pension. When an individual changes job they may be automatically enrolled into a different scheme by their new employer. This will result in a new pension pot being started for the individual and the previous pension pot becoming dormant. DWP estimates that an average individual will change jobs eleven times in their working life, while 25 per cent of individuals will change job 14 or more times[27].The transfer restrictions mean that NEST members are disadvantaged by a policy which prevents consolidation, perhaps leaving their previous pension pots stranded with the potential to cause longer-term financial detriment. The **indirect benefit** to savers is therefore more clarity over pension savings through the ability to consolidate their pension savings should they choose to do so.

Risks and assumptions

36. The annual contribution limit and transfer restrictions were intended to ensure that NEST focused on its target market, providing market stability and administrative simplicity to the scheme during launch and implementation of automatic enrolment. It was always intended to review the need for these constraints in 2017 (as reflected in 74 of the Pensions Act 2008), once roll out of automatic enrolment was complete and the market begins to settle into a new equilibrium.

37. However with very few exceptions[28], individuals can only access NEST through automatic enrolment by their employer. NEST is targeted at low to moderate earners and smaller employers, and removing the annual contribution limit and restrictions on transfers from April 2017 is unlikely to affect an employer's choice of automatic enrolment scheme. At this point existing employers will have chosen a qualifying scheme with which to meet their duties. Evidence from DWP research[29] shows that employers seldom change their pension scheme for their workforce once chosen and very few employers who are likely to use NEST have existing schemes which they could consider transferring to NEST. Furthermore, research[30] suggests that 80 per cent of workers failed to actively transfer their previous company pension funds across to their new employer's scheme.

38. The annual contribution limit and transfer restrictions were cited as important measures by the European Commission in their approval of State aid for NEST. DWP has sought confirmation from the Commission that removing these constraints remains consistent with State aid rules. The Commission has confirmed that the removal of these constraints is compatible with the state aid provided to NEST[31].

39. The Department therefore considers that it is unlikely that the removal of these constraints on NEST from April 2017 (subject to Parliamentary approval) will have an impact on competition in the market.

Direct costs and benefits to business

40. Smaller employers who perceive these two constraints to be a barrier could face additional and unnecessary administrative costs choosing a scheme for automatic enrolment, particularly if they decide they need to implement a two scheme solution because NEST is perceived as not being suitable for all their workers. Removing the restrictions from April 2017 will potentially benefit these employers if they can be confident that they can meet their automatic enrolment with NEST as their single scheme.

[26] UK Government's 'Small pots and automatic transfers impact assessment' (2012): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/184965/small-pots-automatic-transfers-impact-assessment.pdf
[27] Making Automatic Enrolment Work, October 2010. Paul Johnson, David Yeandle and Adrian Boulding. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214585/cp-oct10-full-document.pdf
[28] Exceptions - self-employed people, single person directors, people entitled to a pension credit - SI 2010/917 Article 19(4) & Article 31(1)
[29] Pension landscape and charging: Quantitative and qualitative research with employers and pension providers. Tables 2.6 and 2.7 show the average year of commencement for trust and contract based schemes, size.
[30] http://www.pensions-institute.org/reports/CaveatVenditor.pdf
[31] http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_36410

41. In summary, there are **no direct impacts** on employers from lifting the annual contribution limit and transfer restrictions in April 2017. There is no clear evidence to suggest that the market for pension provision will be indirectly affected by the removal of the NEST constraints in 2017.

42. Removing these two constraints allows for benefits which are consistent with broader, long term policy objectives. Removing the annual contribution limit will send a clear signal that employers can contribute more generously without setting up another scheme. Allowing employers to transfer existing schemes into or out of NEST could enable consolidation.

43. The measures are deregulatory and are in scope for One-In, Two-Out, but the impact on business is assessed to be zero cost.

Summary and Implementation Plan

44. Legislating as soon as possible to confirm that the annual contribution limit and transfer restrictions will be removed in 2017, This will provide clarity and allow NEST to communicate to employers - in particular small and micro employers who are in NEST's target market and begin staging in June 2015 - that these two constraints are temporary and unlikely to be a relavant factor in selecting a scheme. It will enable NEST to focus on supporting automatic enrolment implementation but at the same time send a clear message to smaller employers that these two constraints do not prevent them using NEST to meet their automatic enrolment duties and will not have a bearing on them or their workers in the longer term.

45. Once automatic enrolment applies to all existing employers (from April 2017), the main effects of the constraints are to stop individuals saving more and to prevent consolidation which is not consistent with broader pensions policy objectives.

46. Removing these two constraints from 1 April 2017 has been approved by the EU Commision as being compatible with the State aid measure afforded to NEST and was set out in the Government's Command Paper[32] *"Supporting automatic enrolment: The Government response to the call for evidence on the impact of the annual contribution limit and the transfer restrictions on NEST"*.

---

[32] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211063/nest-automatic-enrolment-call-for-evidence-response.pdf