Title: Automatic enrolment into workplace pensions: seafarers regulations and offshore workers order **IA No: DWP-001-2020** **RPC Reference No: RPC-4438(1)-DWP** **Lead department or agency:** Department for Work and Pensions **Other departments or agencies: N/A**	**Impact Assessment (IA)** **Date: 28/01/2020** **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** automatic.enrolmentpolicyteam@dwp.gov.uk Thomas.Lloyd2@dwp.gov.uk
Summary: Intervention and Options	**RPC Opinion: Green**

Cost of Preferred (or more likely) Option (in 2016 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
-£4m	-£420m	£22m	Qualifying provision

What is the problem under consideration? Why is government intervention necessary? UK legislation which came into force on or after April 2011[1] had to include a sunset clause where that legislation imposed a net burden on business or civil society organisations.[2] The secondary legislation[3] which extends automatic enrolment (AE) into a workplace pension to seafarers and offshore workers contains such a clause which expires on 1 July 2020. Without government intervention, the AE framework applying to the maritime industries will fall away, contrary to the Government's policy intention, as most recently set out in the 2017 AE Review: Maintaining the Momentum[4]. Unless this legislation is renewed, maritime workers commencing employment on or after 1 July 2020, or those existing workers who opted-out of being automatically enrolled into a qualifying workplace pension before this date, would not benefit from the legal obligations that apply to their employers to automatically enrol them.

What are the policy objectives and the intended effects?

AE was introduced to reverse the culture of under-saving and enable individuals to take greater responsibility for their retirement. The 2017 AE Review: Maintaining the Momentum concluded that no eligible worker should be excluded by virtue of the sector in which they work, or the type of work they undertake. The decision to renew the expiring legislation will ensure that seafarers and offshore workers remain within scope of AE. In 2018, the Government carried out a Post Implementation Review (PIR)[5] which confirmed these regulations and the order in council remain fit for purpose and should be renewed so that the maritime industries remain within the scope of AE.

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

Option 1: not legislating - would be directly contrary to the Government's policy intent set out in the 2017 AE Review i.e. that no eligible employees working, or ordinarily working, in the UK should be excluded by virtue of the sector of the economy in which they work. This position was confirmed in the 2018 PIR which gathered evidence from stakeholders supporting the principle that AE should be available to all qualifying workers in these industries. This also concluded that the current legislation was meeting its objective of enabling seafarers and offshore workers to benefit from AE;
Option 2: renew the current expiring legislation - we received no compelling evidence that a different legislative approach would deliver better outcomes for the majority of seafarers and offshore workers. As such, the government considers that the only suitable course of action is to renew the expiring legislation so that workers in these industries remain within the scope of AE.

1 HM Government - REDUCING REGULATION MADE SIMPLE- https://webarchive.nationalarchives.gov.uk/20110526141622/http:/www.dius.gov.uk/assets/biscore/better-regulation/docs/r/10-1155-reducing-regulation-made-simple.pdf

2 http://data.parliament.uk/DepositedPapers/Files/DEP2011-0504/DEP2011-0504.pdf

3 The Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) Regulations 2012 and The Automatic Enrolment (Offshore Employment) Order 2012, extended the scope of automatic enrolment into workplace pensions to include seafarers and offshore workers if they are ordinarily working in the United Kingdom.

4 https://www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum

5 http://www.legislation.gov.uk/uksi/2012/1257/pdfs/uksiod_20121257_en.pdf

Will the policy be reviewed? It will not be reviewed. **If applicable, set review date:** N/A					
Does implementation go beyond minimum EU requirements?		N/A			
Is this measure likely to impact on international trade and investment?		No			
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes		**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 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: Guy Opperman Date: 02/03/20

Summary: Analysis & Evidence — Policy Option 2

Description: Renewing coverage of automatic enrolment to seafarers and offshore workers

FULL ECONOMIC ASSESSMENT

Price Base Year 2016	PV Base Year 2017	Time Period Years 31	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -4

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low		N/A		
High				
Best Estimate	N/A		66	1,114

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

The costs shown here are the average annual costs between 2020 and 2050 in 2016 prices.
Transfers: Individual contributions: **£28m**; Employer contributions: **£25m**; Government (tax relief): **£13m**
Resource costs: Employer administrative costs: **£0.2m**
These costs are those arising from renewal of the regulations. They are not in addition to those in the Workplace Pension Reform Secondary Legislation 2012 Impact Assessment[6] which assumed renewal.

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

For reasons of proportionality given limited evidence in the relevant sectors that would be required, we do not quantify second-order effects to Government, such as lower receipts from corporation tax if employers absorb additional pension costs from lower profits, or lower income tax, National Insurance contributions and VAT if employers absorb costs through lower wages to employees.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low		N/A		
High				
Best Estimate	N/A		66	1,110

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

Transfers: annual average benefit of **£66m** from increased pension savings to individuals between 2020 and 2050 in 2016 prices.

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

Benefits of consumption smoothing for individuals saving for a retirement income as a result of participation in a pension scheme through (continuing) automatic enrolment coverage. This is not a financial transfer, but represents the perceived value to individuals from transferring income from working life to retirement. The Workplace Pension Reform Regulations Impact Assessment 2010[7] estimated the total social value of consumption smoothing from automatic enrolment to be around £40-60 billion.

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

The costs are sensitive to the opt-out rate, which is assumed to be 9 per cent in line with the current national average. It is assumed that in the event of automatic enrolment being withdrawn, savings behaviour of new employees will return to pre-automatic enrolment levels. Green Book guidance has been followed for the assumption of long-term inflation (2.3 per cent GDP deflator). Long-term nominal earnings growth is assumed to be 4.3 per cent in line with the Office for Budget Responsibility's Economic and Fiscal Outlook March 2019.[8]

BUSINESS ASSESSMENT (Option 2, 2016 prices, 2017 present value)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 22	**Benefits:** 0	**Net:** -22	108

6 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/220205/ia-workplace-pension-reform-final-stage.pdf
7 http://www.legislation.gov.uk/ukia/2010/29/pdfs/ukia_20100029_en.pdf
8 https://obr.uk/efo/economic-fiscal-outlook-march-2019/

1. Overview and Summary of Costs and Benefits

1.1 Overview

Automatic enrolment (AE) into a qualifying workplace pension was one of the key recommendations of the Pensions Commission, which reported in October 2004[1] and November 2005.[2] The Pensions Commission looked at the future of retirement saving in the context of declining workplace pension participation and increasing longevity. The Commission identified that between 9.6 and 12 million individuals were under-saving, and recommended the creation of a vehicle – automatic enrolment – for saving for workers who did not have access to a workplace pension.

The policy intent is to increase the number of workers participating in workplace pensions and to increase the total amount saved into them. This is to be achieved by enabling individuals who did not have access to a workplace pension to start saving, and for their contributions to be supplemented by employer contributions, and usually tax relief.

Seafarers and offshore workers were initially excluded from AE under Sections 96 and 97 respectively of the Pensions Act 2008.[3] The exclusion in the Pensions Act was introduced to allow time for Government to fully consider a series of complex issues before deciding whether or not automatic enrolment should apply to seafarers and offshore workers. In particular, it was important to consider how a policy to auto-enrol seafarers would fit with international sea law and custom in respect of those working on foreign registered ships.

Both groups were subsequently brought into automatic enrolment by means of secondary legislation following a public consultation and government response in 2011. The government at the time put in place that sunset clauses would be mandatory for Domestic legislation which came into force on or after April 2011, where there is a net burden (or cost) on business or civil society organisations. The inclusion of a sunset clause means that the regulations and order in council which requires seafarers and offshore workers to be automatically enrolled into a workplace pension, will expire automatically on 1st July 2020.

AE has been a great success to date. Over 10 million employees have been automatically enrolled into a workplace pension with on opt-out rate of only nine per cent, and more than 1.5 million employers have complied with their legal duties.[4] In 2018, the total amount saved by eligible savers in the private-sector was £50.2 million, up from £37.4 million in 2012.[5]

In the years since the introduction of the legislation the evidence available to DWP shows that the broad policy objective has been achieved, in that seafarers and offshore workers ordinarily working in the United Kingdom have been brought within the scope of automatic enrolment. In addition, the responses to the DWP call for evidence in 2017 and the feedback from the stakeholder roundtable in 2018 supported the continued inclusion of these two categories of workers in automatic enrolment.

The 2018 PIR noted that overall concerns raised by stakeholders were similar to those from the 2011 consultation prior to the introduction of the legislation. Following the findings of the 2018 PIR, the government is bringing forward legislation to ensure that the AE duties continue to apply to workers in the maritime industries.

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[1] https://web.archive.org/web/20051219075954/http://www.pensionscommission.org.uk/publications/2004/annrep/index.asp

[2] https://web.archive.org/web/20051206020837/http://www.pensionscommission.org.uk/publications/2005/annrep/annrep-index.asp

[3] http://www.legislation.gov.uk/ukpga/2008/30

[4] The Pensions Regulator, Automatic enrolment declaration of compliance report https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/automatic-enrolment-declaration-of-compliance-report

[5] Department for Work and Pensions, Workplace pension participation and saving trends: 2008 to 2018 https://www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2008-to-2018

1.2 Summary of costs and benefits

Compared to an option of not renewing the regulations in the Workplace Pension Reform Secondary Legislation 2012[6] [7] bringing seafarers and offshore workers within the scope of automatic enrolment, renewing the regulations will mean that employers of these employees continue to be required to automatically enrol eligible employees. This results in transfer costs from pension contributions by individuals and employers, plus tax relief from the Government, into individuals' pension savings for those employees who would not otherwise be enrolled in a workplace pension were the regulations to expire. There are also administrative costs to employers of continuing to provide workplace pensions for these employees who would not otherwise be enrolled.

The original Impact Assessment[8] for the Workplace Pension Reform Secondary Legislation 2012 assessed the costs and benefits up to 2050 of extending automatic enrolment to seafarers and offshore workers. These costs and benefits were assessed on the basis of the regulations being extended after June 2020. Therefore, the costs in this Impact Assessment are not in addition to those in the 2011 Impact Assessment. However, the average cost per year estimated here is different to the estimate in the 2011 Impact Assessment, as a result of using revised evidence. The most significant piece of new information is that recent evidence estimates the overall level of opt-out to be lower than what was assumed before it was introduced.

The appraisal period for this Impact Assessment is to 2050, so that the costs and benefits are consistent with the period assessed in the 2011 Impact Assessment.

Were the regulations to not be renewed past June 2020, employers of seafarers and offshore workers would continue to face obligations to their existing employees who were enrolled in a qualifying scheme[9] at the time the regulations expire. The employers may not unenroll these individuals from the scheme, and must continue to maintain the minimum contributions. This Impact Assessment compares the costs and benefits that would arise were the regulations to be renewed against the costs and benefits that would be present were the regulations to expire, whereby employers would only have obligations to existing employees in a qualifying scheme.

Table 1.1 shows the estimated transfer costs and benefits of renewing the regulations compared to allowing them to expire. Table 1.2 shows the estimated administrative costs. There are no transition costs from renewing the regulations, since it represents a continuation of existing procedures for employers, rather than implementing new systems.

We present summary costs in 2016 prices throughout, for consistency with the summary Net Present Value and Estimated Annual Net Direct Cost to Business.

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6 The Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) Regulations 2012 – SI 2012 No. 1287
https://www.legislation.gov.uk/uksi/2012/1257

7 The Automatic Enrolment (Offshore Employment) Order 2012, SI 2012 No. 1388
https://www.legislation.gov.uk/uksi/2012/1388

8 Published 15th December 2011, and hereafter referred to as the 2011 Impact Assessment.
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/220205/ia-workplace-pension-reform-final-stage.pdf

9 A qualifying scheme under automatic enrolment is one in which pension contributions are made at (at least) the minimum rates set, on earnings equal to at least the qualifying earnings band, this consisting of all earnings between the lower earnings limit and the upper earnings limit.

Table 1.1: Estimated transfer costs and benefits (£m) from renewing regulations extending automatic enrolment to seafarers and offshore workers past June 2020 compared to allowing the regulations to expire

	Annual average	2020	2025	2030	2040	2050
Individuals						
Contribution costs	-28	0	-15	-32	-39	-48
Savings into private pensions	66	0	35	75	92	112
Net benefit	38	0	20	43	52	64
Employers						
Contribution costs	-25	0	-13	-28	-34	-42
Government						
Tax relief on contributions	-13	0	-7	-15	-18	-22

Notes:
- Figures presented in 2016 prices
- Costs are shown as negative numbers, benefits as positive numbers
- Figures rounded to the nearest £1m

Table 1.2: Estimated administrative costs (£m) from renewing regulations extending automatic enrolment to seafarers and offshore workers past June 2020 compared to allowing the regulations to expire

Annual average	2020	2025	2030	2040	2050
-0.2	0	-0.1	-0.2	-0.3	-0.4

Notes:
- Figures presented in 2016 prices
- Costs are shown as negative numbers, benefits as positive numbers
- Figures rounded to the nearest £1m

2. Overview of Analysis

The numbers of seafarers and offshore workers affected by automatic enrolment are estimated based on:
- The latest available statistics on the total number of workers in the UK core offshore workforce, and the number of workers in the UK shipping industry.
- Assumptions on the proportion of these workers who meet the criteria for automatic enrolment using advice from stakeholders and published statistics.
- Assumptions on the proportion of these workers who were already saving into a qualifying scheme before automatic enrolment based on advice from stakeholders.
- Assumptions of the rate of opt-out from automatic enrolment by individuals, using the latest available evidence of the opt-out rate from automatic enrolment nationally.

Using the estimates of the numbers affected, the transfer costs from automatic enrolment regulations are estimated based on:
- Assumptions on the average earnings of offshore workers and seafarers using advice from stakeholders and published statistics.

Administrative costs are estimated based on:
- Assumptions of average administrative cost per employee, using original assumptions from the Workplace Pension Reform Regulations Impact Assessment 2010, the latest available evidence gathered by the Department for Work and Pensions, and figures published by the Pensions Regulator.
- Assumptions of the size profile of employers in the offshore and seafaring industries, based on published statistics for eligible employees nationally, and inferences from stakeholder advice on the number of firms.

The key assumptions and risks for which estimated costs would be notably affected if the assumption is not robust are presented in table 2.1.

Table 2.1: Key assumptions and risks

Assumption	Description	Risk
Opt-out rate	It is assumed that 9 per cent of eligible workers who are automatically enrolled choose to opt-out, in line with the latest national average.	There is no available evidence on whether the opt-out rate for offshore workers and seafarers differs from the national average. Were the opt-out rate for these workers to be higher/lower than the national average, the total costs would be lower/higher respectively, in rough proportion to the difference between the proportion assumed to not opt-out and the actual proportion who don't opt-out. For example, if the actual opt-out rate was 18 per cent, the costs would be around 10 per cent smaller than estimated here.
Size of workforce over time	It is assumed that the size of the workforce for the sectors of interest remains constant from the point of the latest available figures.	Available statistics show that the sizes of the relevant workforces have had periods of increase and decrease, but do not indicate a clear ongoing trend. Were the sizes of the workforces to increase/decrease, the total costs would be higher/lower respectively, in rough proportion to the difference between the actual and assumed workforce sizes in any given year.
Future earnings of offshore workers and seafarers in relation to automatic enrolment thresholds	It is assumed that the earnings of different subgroups within the population of interest remain unchanged in relation to the automatic enrolment thresholds.	It is assumed based on available evidence that all workers in the sectors of interest earn above the automatic enrolment earnings trigger.[10] If the earnings of some workers were to fall below the earnings trigger in the future, the number of eligible workers would be lower than estimated here, and so total costs might also be lower. Earnings would have to fall significantly relative to the earnings trigger compared to the assumptions made here in order for this to have a material impact on the costs. The lower earnings limit (LEL) and upper earnings limit (UEL) for automatic enrolment determine the "qualifying earnings" – the band of earnings over which pension contributions must be made. It is assumed that the proportion of earnings for the individuals affected which falls into the qualifying earnings band remains constant. If their earnings were to change relative to the LEL and/or UEL in such a way to increase/decrease the proportion of earnings which fall into the qualifying band, the total costs would be higher/lower respectively. For groups who are assumed to be earning well above the UEL, their earnings relative to the UEL would have to fall significantly for there to be an impact on the costs. In all cases, a difference in earnings relative to the LEL would have an impact.
Pension participation in the absence of automatic enrolment	It is assumed that, were the automatic regulations to expire, the proportion of newly employed individuals who would choose to enrol into a qualifying pension	Were it to be the case that in the scenario where automatic regulations expire, the propensity of new employees to participate in a pension remained higher than before automatic enrolment, due to factors such as a persistent change in employee attitudes towards pension saving, or employers who first offered workplace pension schemes when automatic

[10] The earnings trigger is the level of earnings at which employers must automatically enrol employees who are aged between 22 and the State Pension age.

	scheme would be the same as it was before the introduction of automatic enrolment.	enrolment took effect continuing to offer these schemes, then the total costs of renewing the regulations relative to a baseline of letting them expire would be lower. From sensitivity testing, if the participation rates of offshore workers and seafarers were 10 percentage points higher after expiry of the regulations than it had been before their introduction, the actual costs of renewing the regulations would be around 18 per cent lower than estimated here.
Employees at small and micro employers	It is assumed that 23 per cent of eligible savers are at small and micro employers, in line with the national average.	As explained in annex 3, this assumption is more likely to over-estimate the proportion at small and micro employers than to under-estimate it, though it is not possible to quantify to what extent. Were the actual proportion to be lower, this would decrease the total costs to small and micro employers, and would cause a small decrease to the overall total costs to all employers.
Staff turnover rate	It is assumed that in each year from 2020 onwards, the number of individuals who have been employed by the same employer since at least 2019 decreases by 10 per cent of the original number.	An estimate of turnover is required to reflect the fact that expiry of the regulations would only affect new staff. There is limited direct evidence on the rate of staff turnover in the sectors of interest. As explained in annex 1, this assumption is made on the basis of two different indirect measures. If the rate of staff turnover is lower/higher, the total costs of renewing the regulations relative to a baseline of letting them expire will be lower/higher in the short to medium term (up to the point where no employees are still at the same employer from the point the regulations expire). The difference would be proportionate to the difference between estimated and actual staff turnover rates as follows: if the rate of staff turnover was twice as high as estimated here, the actual costs would be higher than estimated here in each year up to 2030 (and twice as high in 2025). Conversely, if the rate of staff turnover was half as high as estimated here, the actual costs would be lower than estimated here in each year up to 2040 (and half as high in 2030).

3. Estimates for the numbers of seafarers and offshore workers eligible for automatic enrolment

In this section we estimate the number of seafarers and offshore workers eligible for automatic enrolment based on the latest available information and advice from stakeholders. Having made these estimates, we assume that they remain unchanged in future years. The latest available statistics do not demonstrate evidence of a consistent upwards or downwards trend in the size of the workforces.

3.1 Offshore workers

In 2017, the size of the UK core offshore workforce[11] was around 23,000.[12] Automatic enrolment eligibility is limited to employees who are "ordinarily working" in Great Britain. We assume that all offshore workers are ordinarily working in Great Britain due to starting and ending their journeys to and from an offshore installation from a UK port. Stakeholders consulted for the 2011 Impact Assessment advised that a minority of offshore workers may start and end their journeys from a European port and

[11] Core offshore workers are those who spend more than 100 nights offshore in a year. Non-core workers, of which there are around 26,000 in 2017 (Oil and Gas Offshore Workers Report 2018), are predominantly land based workers whose entitlement to be automatically enrolled would not be affected by the expiry of these regulations.

[12] Oil & Gas Offshore Workers Report 2018 https://oilandgasuk.co.uk/wp-content/uploads/2019/03/OGUK-Workforce-Report-2018.pdf

be resident outside of Great Britain, and therefore the number of offshore workers ordinarily working in Great Britain may be slightly smaller than this, though there is no available evidence to quantify exactly how much smaller this may be. This assumption was included in the 2018 consultation carried out for the Post Implementation Review and stakeholder responses suggested that it was still appropriate.

The age requirement for automatic enrolment eligibility is that employees be aged at least 22 and have not reached State Pension age [13]. We assume that all offshore workers are within this qualifying age bracket. The consultation for the 2011 Impact Assessment suggested that a very small proportion of offshore workers are aged below 22 or have reached State Pension age, and further consultation in 2018 gave no indication that this assumption is no longer appropriate.

The earnings requirement for automatic enrolment eligibility is that employees are to be earning above the automatic enrolment earnings trigger, which is £10,000 per annum for 2019/20. We assume that all offshore workers earn above this earnings trigger and that earnings remain above the trigger in future years. Stakeholder advice at the time of the 2011 Impact Assessment was that all offshore workers were earning above £7,475 and 95 per cent of offshore workers were earning above £38,185. The assumption that all offshore workers earn above £10,000 was included in the 2018 consultation and no stakeholders advised that it was no longer valid.

As a result of the assumptions above, it is assumed that **all of the 23,000 core offshore workers are eligible for automatic enrolment**.

When automatic enrolment took effect for existing employers, they were not required to take any action for employees who were already enrolled in a qualifying scheme. In the 2011 Impact Assessment the assumption, based on stakeholder advice, was that 60 per cent of eligible offshore workers were already enrolled in a qualifying scheme. For this Impact Assessment, we assume that were the regulations to expire, the level of participation in qualifying schemes by offshore workers would return to the same level of 60 per cent.

When automatically enrolled, employees may opt-out. It is assumed that 9 per cent of offshore workers who are automatically enrolled will choose to opt-out. This is based on the overall opt-out rate across the automatic enrolment programme.[14] [15] The 2011 Impact Assessment assumed that 25 per cent of workers automatically enrolled would choose to opt-out. This was based on the overall level of opt-out assumed before the roll-out of automatic enrolment, which more recent evidence has shown to have been an over-estimate.

This leads to an estimate of around **9,000 offshore workers who employers would be required to automatically enrol** who would not otherwise be saving in a qualifying scheme, of which around **8,000 would not opt-out.** In section 4 where we estimate costs, we apply an annual adjustment to this number based on estimated staff turnover rates to reflect the different obligations of employers towards existing employees if the automatic enrolment regulations were to expire.

3.2 Seafarers

Latest available statistics show that in 2018, the workforce of UK-national seafarers active at sea consisted of 12,050 ratings and 11,940 officers.[16] [17] In addition to UK nationals, the UK shipping industry

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[13] Over the period covered by the costings in this Impact Assessment, the State Pension age – the age at which individuals are eligible to claim a full State pension – is scheduled to increase incrementally from 65 to 68.

[14] Automatic Enrolment evaluation report 2018 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764964/Automatic_Enrolment_Evaluation_Report_2018.pdf

[15] Breakdowns of opt-out rates by sector as assessed in DWP's Employers Pension Provision (EPP) survey 2017 do not include specific figures for the sectors in which offshore workers and seafarers would be categorised due to small sample sizes, therefore the overall opt-out rate is used. In sectors for which there is a large enough sample size to assess the opt-out rate in EPP 2017, the opt-out rates range from 7 per cent for the accommodation and food services sector and the administrative and support service activities sector, to 12 per cent in the human health and social work sector. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/717607/employers-pension-provision-survey-2017.pdf

[16] Department for Transport, Seafarers in the UK Shipping Industry: 2018 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/763848/seafarers-in-the-uk-shipping-industry-2018.pdf

[17] "Ratings" are semi-skilled experienced workers or other staff without maritime training.

includes foreign nationals. The latest estimate for the number of foreign nationals in the UK shipping industry is 98,200.[18]

Seafarers are "ordinarily working" in Great Britain for the purposes of automatic enrolment eligibility if their journey starts and ends from a domestic port, or if they sail from a domestic port to a foreign port and are based in Great Britain. The assumptions used are that 90 per cent of UK ratings, 45 per cent of UK officers, and around 9 per cent of foreign nationals are ordinarily working in Great Britain. These assumptions were set in the 2011 Impact Assessment on the basis of advice from stakeholders, and further consultation in 2018 gave no indication that these assumptions are no longer appropriate.

Published statistics on the breakdown of seafarers by age do not include breakdowns that align with the age range for automatic enrolment eligibility of 22 to State Pension age. Therefore, we assume that the proportion of seafarers who are aged at least 22 and under State Pension age is close to the proportion who are aged 20 to 64. Latest available evidence shows that in 2018, 97% of UK officers and 96% of UK ratings were aged 20 to 64.[19] We further assume that the proportion of foreign nationals aged 20 to 64 is the same as the proportion for UK ratings.

We also assume that all seafarers earn above the earnings trigger of £10,000. Stakeholder advice at the time of the 2011 Impact Assessment was that it was likely all workers meeting the age requirement and ordinarily working in Great Britain would earn above the trigger of £7,457 at that time, although they were not sure how far this would apply to foreign national workers. The assumption that all seafarers earn above £10,000 was included in the 2018 consultation and no stakeholders gave advice that this assumption was not valid.

As a result of the assumptions above, **we estimate that there are 5,000 eligible UK officers, 10,000 eligible UK ratings and 8,000 eligible foreign nationals in the shipping industry.**

For the 2011 Impact Assessment, stakeholders advised that 20 per cent of UK ratings and 45 per cent of UK officers were in an existing workplace pension scheme that was likely to meet the qualifying criteria. This assumption was included in the 2018 consultation and no stakeholders advised that it was no longer valid. For this Impact Assessment, we assume that in the absence of automatic enrolment, the proportions of newly employed UK seafarers who would participate in a workplace pension would be equal to the proportions of those who were already doing so before the implementation of automatic enrolment.

We also assume that in the absence of automatic enrolment, no foreign nationals in the UK shipping industry would participate in a workplace pension, which is consistent with the assumption in the 2011 Impact Assessment. This assumption was included in the 2018 consultation and no stakeholders advised that it was no longer valid.

Just as for offshore workers, it is assumed that 9 per cent of automatically enrolled seafarers will opt-out, in line with the overall opt-out rate across the automatic enrolment programme.[20] There is no direct evidence available on whether opt-out rates for seafarers are higher than the national average. A survey of employees and employers in the maritime industry conducted by Ensign Pensions in 2018[21] showed that 96 per cent of employees responding said that it was "very" or "quite" important to them that their employer offered a pension scheme. Asked to list factors that were most important when choosing to select or remain with an employer, pension/retirement savings was given as the third most common factor after salary and annual leave. The positive attitudes to workplace pension saving among seafarers indicated by this survey provides some indirect support for the assumption that seafarers are not necessarily more likely to opt-out than employees in other sectors.

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[18] Oxford Economics & Maritime UK: The economic impact of the UK Maritime Services Sector: Shipping (May 2015) https://www.britishports.org.uk/system/files/documents/shipping_the_economic_impact_of_the_uk_maritime_services_sector.pdf

[19] Department for Transport, Seafarers Statistics 2018, table SFR0302 (proportional breakdown by age based on UK Chamber of Shipping member companies only) https://www.gov.uk/government/statistical-data-sets/seafarer-statistics-sfr

[20] Automatic Enrolment Evaluation Report 2018, Department for Work and Pensions https://www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2018

[21] http://www.ensignpensions.com/wp-content/uploads/2018/07/whatdopensionsmean.pdf

As a result of the above assumptions, it is estimated there are around **19,000 seafarers who employers would be required to automatically enrol,** of which around **18,000 would not opt-out**, consisting of 3,000 UK officers, 8,000 UK ratings and 7,000 foreign nationals. In section 4 where we estimate costs, we apply an annual adjustment to this number based on estimated staff turnover rates to reflect the different obligations of employers towards existing employees if the automatic enrolment regulations were to expire.

4. Costs and Benefits

4.1 Overview of Costs and Benefits

Costs arise for individuals and employers from contributions to workplace pensions, and to the Government for tax relief on the individuals' contributions. In addition, there are administrative costs to employers.

In addition to the direct cost to Government from income tax relief, there will be second order effects from reductions in other taxes, such as lower receipts from corporation tax if employers absorb additional pension costs from lower profits, or lower income tax, National Insurance contributions and VAT if employers absorb costs through lower wages to employees. There will also be long-term benefits to Government arising from higher future pensioner incomes resulting in higher tax receipts and reduced benefit expenditure on these individuals in retirement. DWP's Employer Pension Provision survey asks employers what strategies they have adopted to deal with the costs of automatic enrolment. However, sample sizes are not sufficient to provide information on employers of offshore workers and seafarers specifically, and the second-order effects in these cases are likely to differ significantly from the overall averages in other sectors given the distinctive nature of these employers. In consultation for the 2011 Impact Assessment, stakeholders advised that many employers of offshore workers and seafarers have no physical presence in Great Britain. Furthermore, the high number of foreign nationals in the shipping industry suggests many of these employees may not retire in Great Britain. For reasons of proportionality, given this limited evidence, we do not quantify these second order costs in this Impact Assessment.

All contributions into individuals' workplace pensions are treated as transfers to the individuals, therefore individuals receive a direct benefit equal to the total contribution costs. There will also be non-monetised benefits resulting from consumption smoothing, whereby individuals experience benefits from transferring income from working life into retirement. The Workplace Pension Reform Regulations Impact Assessment 2010 estimated the Net Present Value of the social welfare benefits of automatic enrolment as a whole to be around £40-60 billion.[22]

Under the terms of existing legislation, the duties of employers of offshore workers and seafarers under automatic enrolment continue to apply to all employees already enrolled in a qualifying scheme regardless of whether the regulations are renewed beyond June 2020. Therefore, in estimating the additional costs that would result from renewing the regulations, we assume that the additional costs will arise only in respect of new employees.

To take account of the reduction in costs of renewing the regulations relative to the baseline as a result of employers' ongoing duties to existing employees, we make an adjustment whereby the unadjusted costs are reduced by 100 per cent in year 1, 90 per cent in year 2 etc., and are not adjusted from year 11 onwards. These adjustment factors are chosen to reflect an estimate of the level of staff turnover, as described in Annex 1.

4.2 Qualifying earnings

Automatic enrolment mandates minimum contributions on "qualifying earnings", consisting of earnings above the lower earnings limit (£6,136 in 2019/20) and below the upper earnings limit (£50,000 in

[22] http://www.legislation.gov.uk/ukia/2010/29/pdfs/ukia_20100029_en.pdf

2019/20). Therefore, an individual with gross earnings above the upper earnings limit has qualifying earnings of £43,864.

We assume that all offshore workers are earning in excess of the upper earnings limit. Stakeholder feedback at the time of the 2011 Impact Assessment was that more than 95 per cent of offshore workers would earn in excess of the upper earnings limit at that time, which was £38,185. The 2018 consultation included the assumption that all offshore workers earned the upper earnings limit, which was £45,000 at that time, and no stakeholder responses advised that this assumption was no longer valid. Therefore, we assume that **all offshore workers have the maximum possible qualifying earnings of £43,864**. To the extent that fewer than 100 per cent of offshore workers earn above the current upper earnings limit, the actual transfer costs between individuals, employers and the Government will be lower than the estimates made here.

There is no robust information available on the average earnings of seafarers. We assume that UK ratings and foreign nationals earn the national median full-time pay for males and females respectively, and that all UK officers earn above the upper earnings limit. In 2018, the median full-time gross earnings were £31,834 for males and £26,103 for females.[23] Stakeholder responses to the 2018 consultation advised that it was likely the overall average earnings of seafarers would be below the upper earnings limit at that time of £45,000.

The latest available evidence from published statistics show that in 2018 73 per cent of UK ratings active at sea within UK Chamber of Shipping companies were male.[24] As this is the best available evidence, we assume that 73 per cent of all UK ratings are male, and further that the same proportion applies to foreign nationals. Therefore, we estimate that the average gross earnings for UK ratings and foreign nationals in 2018 is £30,287. Uprating by earnings growth to 2019, and taking only earnings above the lower earnings limit, we estimate that **the average qualifying earnings of UK ratings and foreign nationals in 2019 is £25,045**, or £23,151 in 2016 prices.

We assume that **all UK officers earn above the upper earnings limit, and therefore have the maximum possible qualifying earnings of £43,864.** The assumption that all UK officers still earn above the upper earnings limit was included in the 2018 stakeholders consultation and no responses advised that it was no longer valid.

From 2019/20, minimum contributions under automatic enrolment are 8 per cent of qualifying earnings, and at least 3 per cent must be paid by employers. In calculating costs to employers, individuals and the Government we assume that employers pay the minimum of 3 per cent of qualifying earnings, and the remaining contributions of 5 per cent are paid by individuals and tax relief. In line with the assumption that UK ratings and foreign nationals in the shipping industry earn below the upper earnings limit (which is equal to the threshold for higher rate income tax), we assume that these groups pay 4 per cent of qualifying earnings through individual contributions and the Government pays the remaining 1 per cent through tax relief. In line with the assumption that UK officers in the shipping industry and offshore workers earn above the upper earnings limit, we assume that these groups pay 3 per cent of qualifying earnings through individual contributions and the Government pays the remaining 2 per cent.

To estimate costs in future years, we assume that gross earnings of offshore workers and seafarers and the automatic enrolment earnings trigger, lower earnings limit and upper earnings limit increase all increase in line with average earnings growth, so that the earnings of individuals affected remain unchanged relative to the automatic enrolment thresholds. The automatic enrolment thresholds are set by the Secretary of State for Work and Pensions through an annual review, based on criteria of whether the right people are brought in to pension saving, what the appropriate minimum level of saving is for people who are automatically enrolled, and whether the costs and benefits to individuals and employers are appropriately balanced. The assumptions made in this Impact Assessment do not reflect any commitment to how future thresholds will be set. If the earnings of offshore workers and seafarers do not remain unchanged in the long-term relative to the automatic enrolment thresholds, either due to different earnings growth for these workers and/or decisions to change the thresholds relative to earnings, this

[23] Office of National Statistics, Annual Survey of Hours and Earnings 2018 (provisional) Table 6.7a https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/agegroupashetable6

[24] Department for Transport, Seafarers Statistics 2018, table SFR0302 https://www.gov.uk/government/statistical-data-sets/seafarer-statistics-sfr

could potentially result in large differences between actual costs and those estimated here, as outlined in table 2.1.

4.3 Costs to employers: contributions

Direct costs to employers arise both from pension contributions (transfers from employer to employee) and from administrative costs.

As a result of the assumptions on the number of workers and average qualifying earnings, we estimate that the total cost to employers of offshore workers from pension contributions in 2019/20 is £11m. Similarly, the estimated total cost to employers of seafarers from pension contributions in 2019/20 is £15m. However, as noted in section 4.1, we must further adjust these estimates to account for the ongoing duties of employers to existing employees were the regulations to expire.

As explained in section 4.1, we adjust the costs above to produce the costings relative to the baseline to reflect the ongoing duties of employers to existing employees. After this adjustment, the profile of employer contribution costs is as follows in table 4.3.1.

Table 4.3.1: Employer contribution costs (£m)

2020	2025	2030	2040	2050
0	13	28	34	42

Figures presented in 2016 prices

4.4 Costs to employers: administrative costs

There is no available evidence on the administrative costs of automatic enrolment specific to employers of offshore workers and seafarers; instead we use estimates of the national average administrative costs.

In the 2010 Workplace Pension Reform Regulations Impact Assessment,[25] expected administrative costs were estimated per employee.[26] Administrative costs were estimated separately for employers operating an existing workplace pension scheme, and employers who would require to use a new scheme.

Since the introduction of automatic enrolment, there is further evidence available on the administrative costs of automatic enrolment to employers. The two main sources of evidence available are the Employers' Pension Provision Survey (EPP) which the Department for Work and Pensions publishes, and the Ongoing Duties Survey published by the Pensions Regulator. Neither of these provides information which is directly comparable to the ongoing administrative cost assumptions in the 2010 Impact Assessment.

In this Impact Assessment, we assume the same average administrative costs per employee as estimated in the 2010 Workplace Pension Reform Regulations Impact Assessment. Since under the continuation of existing regulations no employers should need to set up new schemes or change processes, we use the administrative ongoing cost estimates for employers operating an existing workplace pension scheme, and we assume that there are no additional costs in year 1. We assume as part of this that there are no new employers over this period who would not have set up pension schemes in the absence of automatic enrolment. To the extent that there are new employers who would have otherwise have set up pension schemes, the administrative costs will be larger than estimated here. Based on stakeholder advice, the number of small firms employing offshore workers and seafarers is relatively small (see annex 3), which suggests that it is unlikely there are a large number of new firms entering these sectors. Stakeholders advised at the time of the 2011 Impact Assessment that the majority of employers of offshore workers already had pension schemes.

[25] Referred to hereafter as "the 2010 Impact Assessment".

[26] http://www.legislation.gov.uk/ukia/2010/29/pdfs/ukia_20100029_en.pdf

The relevant costs by employer size are reproduced in table 4.4.1. In Annex 2, we describe how taking together the latest available information from the EPP and the Ongoing Duties Survey provides indirect evidence to support using these assumptions.

Table 4.4.1: Reproduction of table G.7 from the Workplace Pension Reform Regulations Impact Assessment 2010.

Table G.7: Estimated average administrative cost per employee by firm size for a firm offering an existing scheme

	Number of individuals eligible for automatic enrolment	Cost in Year 1 (£)	Ongoing cost in future years (£)
Large firms	2,000,000	20	5
Medium firms	800,000	20	5
Small firms	900,000	20	10
Micro firms	100,000	60	20
All firms	**3,800,000***	**20†**	**5†**

Source: DWP modelling
Notes: Figures are expressed in 2009/10 prices; Figures are rounded to the nearest £100, where the figure is less than £100 it is rounded to the nearest £10 or £5 as appropriate and may not sum due to rounding.
*total number of projected firms in 2012; †average administrative cost.

We assume that 23 per cent of employees automatically enrolled are at small employers, and the remaining 77 per cent are at medium or large employers. Details of this assumption are outlined in Annex 3. As discussed in that annex, this assumption is more likely to over-estimate the proportion of employees at small employers than to under-estimate it. As a result, the estimates of administrative costs to employers to follow are also more likely to be an over-estimate than an under-estimate, although we cannot quantify by how much.

Some administrative costs are associated only with the point of automatically enrolling or re-enrolling individuals, while others are associated with the ongoing collection and administration costs each year. In the annual administrative cost figures used here, the costs of enrolment activity are averaged out to an annual basis, and collection and administration costs per employee are averaged out to all employees to be automatically enrolled. Therefore, we apply the estimated average costs to the number of individuals in each year who are eligible to be automatically enrolled and who would not otherwise be saving, regardless of whether they opt-out or not.

Using the assumptions outlined above, the total unadjusted administrative costs in 2009/10 prices are around £119,000 for seafarers and around £57,000 for offshore workers, or around £132,000 and £63,000 respectively in 2016 prices.

We assume that administrative costs rise in line with average earnings growth, on the basis that both the Ongoing Duties survey and Employers' Pension Provision survey show the largest costs are incurred from employers paying for external advice, and because other costs will include the labour costs to employers from time required to administer enrolment; therefore, costs such as IT which may not increase with earnings are likely to be a minority. To the extent that some components of the administrative costs rise in line with prices rather than earnings, the total costs to employers will be lower than the estimates given here.

As explained in section 4.1, we adjust the costs above to produce the costings relative to the baseline to reflect the ongoing duties of employers to existing employees. After this adjustment, the profile of employer administration costs is as follows in table 4.4.2.

Table 4.4.2: Employer administration costs (£m)

2020	2025	2030	2040	2050
0.0	0.1	0.2	0.3	0.4

Figures presented in 2016 prices

4.5 Costs to individuals

As a result of the assumptions on the number of workers and average qualifying earnings, we estimate that the total cost to individual offshore workers from pension contributions in 2019/20 is £11m. Similarly, the estimated total cost to seafarers from pension contributions in 2019/20 is £18m. In deriving these costs, we assume that all UK ratings and foreign nationals within the shipping industry receive tax relief at 20 per cent, while all UK officers within the seafaring industry and all offshore workers receive tax relief at 40 per cent. This is consistent with the assumptions in section 4.2 on the earnings of these groups.

Consistent with assumptions used for employer costs, we assume that average gross earnings of offshore workers and seafarers rise in line with national average earnings growth, and that the automatic enrolment earnings trigger, lower earnings limit and upper earnings limit are also increased in line with national average earnings growth.

As explained in section 4.1, we adjust the costs above to produce the costings relative to baseline to reflect the ongoing duties of employers to existing employees. After this adjustment, the profile of individual contribution costs is as follows in table 4.5.1.

Table 4.5.1: Individual contribution costs (£m)

2020	2025	2030	2040	2050
0	15	32	39	48

Figures presented in 2016 prices

4.6 Direct costs to Government from Income Tax relief

As a result of the assumptions on the number of workers and average qualifying earnings, it is estimated that the total cost to Government from income tax relief on pension contributions of offshore workers in 2019/20 is £7m. Similarly, the estimated total cost to Government from tax relief on pension contributions on seafarers in 2019/20 is £6m.

To estimate costs in future years, it is assumed that average gross earnings of offshore workers and seafarers rise in line with national average earnings growth, and that the automatic enrolment earnings trigger, lower earnings limit and upper earnings limit are also increased in line with national average earnings growth.

As explained in section 4.1, we adjust the costs above to produce the costings relative to baseline to reflect the ongoing duties of employers to existing employees. After this adjustment, the profile of costs to Government from tax relief on pension contributions is as follows in table 4.6.1.

Table 4.6.1: Government tax relief costs (£m)

2020	2025	2030	2040	2050
0	7	15	18	22

Figures presented in 2016 prices

4.7 Benefits to individuals

Individuals receive benefits from automatic enrolment as a result of increased savings in their workplace pensions. All contributions into workplace pensions are treated as transfers from employers, individuals and the Government (from pension contributions) to individuals (as pension savings).

The combined estimate of the total benefit to offshore workers arising from increased contributions outlined above in 2019/20 is £30m. The estimate of the total equivalent benefit to seafarers in 2019/20 is £39m. In deriving these costs, we assume that all UK ratings and foreign nationals within the shipping industry receive tax relief at 20 per cent, while all UK officers within the seafaring industry and all offshore workers receive tax relief at 40 per cent. This is consistent with the assumptions in section 4.2 on the earnings of these groups.

As explained in section 4.1, we adjust the benefits above to produce the costings relative to baseline to reflect the ongoing duties of employers to existing employees. After this adjustment, the profile of benefits to individuals from pension savings is as follows in table 4.7.1.

Table 4.7.1: Individual benefits from pension savings (£m)

2020	2025	2030	2040	2050
0	35	75	92	112

Figures presented in 2016 prices

In addition to the direct benefits of pension savings, there will also be benefits to individuals of consumption smoothing from saving for a retirement income. This is not a financial transfer, but represents the perceived value to individuals from transferring income from working life to retirement. For reasons of proportionality, we do not monetise this benefit here. The Workplace Pension Reform Regulations Impact Assessment 2010[27] estimated the total social value of consumption smoothing from automatic enrolment to be around £40-60 billion.

4.8 Combined costs and benefits

A summary of the combined costs and benefits to all groups estimated in sections above are laid out in table 4.8.1.

Table 4.8.1: Combined costs and benefits to different groups from pension savings

	Annual average	2020	2025	2030	2040	2050
Individuals						
Contribution costs	-28	0	-15	-32	-39	-48
Savings into private pensions	66	0	35	75	92	112
Net benefit	38	0	20	43	52	64
Employers						
Contribution costs	-25	0	-13	-28	-34	-42
Administrative costs	- (<1)	0	- (<1)	- (<1)	- (<1)	- (<1)
Total costs	-25	0	-13	-28	-35	-42
Government						
Tax relief on contributions	-13	0	-7	-15	-18	-22

Notes:
- Figures presented in 2016 prices
- Costs are shown as negative numbers, benefits as positive numbers
- Figures rounded to the nearest £1m

5. Small and Micro Business Assessment (SaMBA)

Based on information on the size distribution of eligible savers into workplace pensions nationally, and information from stakeholders to inform estimates of the total number of firms and size of the workforce, we assume that 23 per cent of seafarers and offshore workers are at small employers, and none are at micro employers. Annex 3 contains an explanation of the basis for this assumption. We apply this proportion to the total cost of pension contributions estimated in section 4. There is no available evidence to suggest that seafarers and offshore workers employed by small employers have different average earnings, or different characteristics relevant to automatic enrolment eligibility, than workers at medium and large employers.

[27] http://www.legislation.gov.uk/ukia/2010/29/pdfs/ukia_20100029_en.pdf

Table 4.4.1 shows that the administrative costs per employee we assume are higher for small employers than medium and large employers. We apply the per-employee cost for small employees in table 4.4.1 to the inferred number of enrolled employees at small employers from applying the 23 per cent proportion.

The estimates made in annex 3 are more likely to be an over-estimate of the proportion of seafarers and offshore workers than an under-estimate, though it is not possible to quantify the likelihood that this is the case. Therefore, the costs presented in table 5.1 for the total costs to small and micro employers are likely to be higher than the true cost. The assumption of 23 per cent of employees at small employers is used throughout the time series to 2050. Therefore, if these industries see a growing number of smaller employers, as suggested by some stakeholders, this may reduce the extent to which the estimated costs are likely to be an over-estimate in the long-term.

Table 5.1: Costs to small and micro business (£m)

	Annual average	2020	2025	2030	2040	2050
Cost of pension contributions	5.7	0	3.0	6.5	8.0	9.7
Administrative costs	0.1	0	< 0.1	0.1	0.1	0.1
Total costs	5.8	0	3.0	6.6	8.1	9.8

Figures presented in 2016 prices

Prior to the introduction of our pension reforms, the independent Making Automatic Enrolment Work (MAEW) review[28] considered the impact of AE on small business and specifically whether smaller employers should be excluded. The review concluded that they should not be as this would exclude 1.2 million employees from workplace pensions; the review also noted it is hard to enforce boundaries between firms of different sizes. The government's 2017 AE Review: Maintaining the Momentum confirmed this position by concluding that no eligible worker should be excluded by virtue of the sector in which they work, or the work they undertake.

However, the Making Automatic Enrolment Work review did make recommendations to minimise the burden of the reforms on businesses and as a result, the Government introduced a series of measures through the Pensions Act 2011 to reduce costs and make the process of automatic enrolment easier for employers to carry out. These included;

- introducing a simpler way for employers to check that their existing pension schemes meet the required standards; and

- introducing an optional 'postponement' of up to three months before an employee needs to be automatically enrolled.

The Pensions Act 2011 contains a number of measures to make automatic enrolment easier for all employers and to help them cope with the cost of complying with their duties under the reforms.

Employers of offshore workers and seafarers will benefit from these easements. They may particularly benefit from the optional waiting period of up to three months. This will reduce the cost for workers who are only with an employer for a short period of time. The costs presented in Table 5.1 do not take into account the potential savings of using an optional waiting period of up to three months.

Other changes introduced in the Pensions Act 2011 to lessen the regulatory and administrative burden on business include increasing the earnings threshold for automatic enrolment and enabling flexibility around the re-enrolment date.

[28] https://www.gov.uk/government/publications/making-automatic-enrolment-work-a-review-for-the-department-for-work-and-pensions

Before the introduction of automatic enrolment, only one in five micro firms and two in five small firms had pension schemes which attracted active membership.[29] Therefore, most small and micro firms incurred administrative costs associated with setting up new schemes, which were higher than costs for employers using existing schemes.[30] Automatic enrolment obligations were staged according to employer size, so that small and micro firms had a longer period in which to prepare. In contrast to these higher burdens on small and micro firms at the introduction of automatic enrolment which were mitigated by staging, renewing the existing regulations on employers of seafarers and offshore workers does not create higher burdens associated with introducing new schemes for small and micro firms, since all firms in scope of the regulations will already have qualifying schemes. This is reflected in the costings within this Impact Assessment, which use estimated administrative costs for firms using existing schemes.

Annex 1: Staff turnover

Under the terms of existing legislation, the duties of employers of offshore workers and seafarers under automatic enrolment continue to apply to all employees already enrolled in a qualifying scheme regardless of whether the regulations are renewed beyond June 2020. Therefore, in estimating the additional costs that would result from renewing the regulations, we assume that the additional costs will arise only in respect of new employees.

There is no direct available information on the level of staff turnover within employers of offshore workers and seafarers. We consider indirect evidence from a range of sources.

Figures published by the Office for National Statistics in August 2019[31] show that over a five year period, the average quarterly gross employment outflow as a proportion of all employees in the previous quarter is 2.8 per cent, and the average quarterly job to job rate is 2.5 per cent. These figures would imply that on average, around five to six per cent of all employees have started a new job since the previous quarter.

There are several reasons why the staff turnover rate for offshore workers and seafarers might be different from a figure approximated on the basis of these national labour market flows alone, such as differences from the national averages for earnings and gender split, and the distinct nature of work in these sectors. In addition, employees may move job without changing employer, and in this case would not lose their rights to employer pension contributions under the scenario being considered here.

Some evidence is available from past surveys on the average length of time offshore workers and seafarers have been working in their respective sectors. Career mapping research carried out in 2013[32] suggested that EU maritime employers could expect most of their seafarers to spend a maximum of ten to fifteen years in sea-service. Survey research of offshore workers in 2009[33] suggested that around 60 per cent of offshore workers had spent five years or more working offshore.

These figures from survey evidence relate to the total amount of time spent working in each sector. This will not take account of periods in which an employee may temporarily leave the labour market, or whether employees move from one employer to another. In both these cases, the employee would lose their rights to employer pension contributions under the scenario being considered here.

We make an overall assumption that in each year in the costing period after the first, ten per cent of employees who were participating in a qualifying scheme in year one are no longer working for the same employer. This figure is lower than one derived solely on the basis of national labour market flows, which does not account for possible differences in the sectors of interest. It is higher than a figure suggested

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29 DWP analysis conducted for the 2010 Workplace Pension Reform Regulations Impact Assessment, based on the Employers Pension Provision Survey 2007, and Small and Medium-Sized Enterprise statistics 2007.

30 2010 Impact Assessment

31 Table X02, Labour Force Survey Flows estimates. Figures here derived from calculations made on seasonally adjusted data. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourforcesurveyflowsestimatesx02

32 https://www.nautilusint.org/globalassets/public-resources/pdfs/etf_eca_maritime_career_mapping.pdf

33 http://www.hse.gov.uk/offshore/workforcesurvey.pdf

solely from survey evidence of the time spent working in the sectors of interest, which does not account for temporary gaps in employment or moves between different employers.

Annex 2: Latest evidence on administrative costs

In section 4.4, we use assumptions on average administrative costs of automatic enrolment per employee to employers from the 2010 Workplace Pension Reform Regulations Impact Assessment.[34] Since the introduction of automatic enrolment, evidence on the administrative costs to employers is available through the Employers' Pension Provision Survey (EPP) which the Department for Work and Pensions publishes, and the Ongoing Duties Survey published by the Pensions Regulator. Neither of these provides information which is directly comparable to the ongoing administrative cost assumptions in the 2010 Workplace Pension Reform Regulations Impact Assessment. The EPP only gathers evidence of the initial implementation costs, while the Ongoing Duties Survey only includes monetary costs from the use of external advisers and service providers.

In this annex, we examine how taking evidence from these two sources together provides indirect support for the continued use of the original assumptions on administrative costs. We do this with two comparisons. First, we compare the implementation costs reported in the EPP against the original assumptions of year one cost. Second, we look at the ratio between implementation costs reported in EPP for employers paying for external advice against the costs reported in the Ongoing Duties survey for external advisers and service providers. We compare this ratio to the ratio between year 1 and ongoing costs estimated in the 2010 Impact Assessment. In both cases, the comparisons suggest that the original assumptions are broadly consistent with recent evidence.

The EPP 2015 survey[35] found that the median implementation cost per worker across all staged employers[36] was £16. It also found that, as predicted, the costs per worker were highest for smaller employers. Median implementation costs in EPP 2015 are lower than the (mean) average year 1 costs assumed in the 2010 Impact Assessment for all employer sizes. While these different averages are not directly comparable, evidence from the Ongoing Duties Survey suggests that in general the distribution of costs is such that the median cost is lower than the mean.[37] Therefore, evidence from EPP on initial implementation costs can be seen as broadly consistent with the 2010 Impact Assessment assumptions.

The Ongoing Duties Survey asks employers to estimate the staff time required by their own staff to meet ongoing duties, and to estimate the size of other costs associated with using external advisers and service providers. In the most recent version of the survey,[38] the median monthly costs of external advisers and service providers were £50 for small employers and £176 for medium employers for those employers incurring such costs.

In EPP 2015, implementation costs were higher for employers who paid for external advice than those who didn't. Table A2.1 shows the median implementation costs in EPP 2015 of paid advice. Table A2.2 shows the latest costs for external advice reported in the Ongoing Duties Survey.[39] Comparing these two sets of figures across similar consistent employer sizes suggests that the initial implementation costs may be up to two times as large as the annual ongoing costs. In the 2010 Impact Assessment, year one costs were estimated to be between two and four times as large as ongoing costs.[40] Therefore, the estimates in the 2010 Impact Assessment may be seen as broadly consistent with more recent evidence, although this evidence suggests it is more likely the original estimates over-estimated the ratio of year one costs to ongoing costs than under-estimated it.

[34] Hereafter referred to as the 2010 Impact Assessment.

[35] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/584593/rr919-employers-pension-provision-2015.pdf

[36] Automatic enrolment was rolled out to employers in stages starting with the largest employers. Staged employers are those whose duties under automatic enrolment have started.

[37] See table A2.2 below.

[38] https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/employer-automatic-enrolment-ongoing-duties-survey-summer-2018.ashx

[39] The figures for Wave 3 are the latest figures.

[40] See table 4.4.1.

A caveat of the comparison above is this comparison is made around only the costs of external advice, and it is not possible to make comparisons for other costs.

Table A2.1: Reproduction of table 2.2 from the Employers' Pension Provision survey 2015.

Table 2.2 Median cost of paid advice, by employer size

	Number of workers							
	1-19	**20-49**	**50-99**	**100-249**	**250-499**	**500-999**	**1,000+**	**All staged employers that paid for advice**
Median cost	-	-	£2,500*	£4,375*	£5,000	£8,500	£20,000	£2,650
Weighted number of employers	87	54	129	110	47	18	24	469
Unweighted number of employers	26[x]	48[x]	69[U]	92[U]	93[U]	75[U]	101	505

[1] This table was weighted using the population of staged employers.
[x] Number of employers size below 50 – cell has been suppressed.
* denotes statistical significance.
[U] Number of employers less than 100 – treat as indicative

Table A2.2: Reproduction of table 4.3.2 from Ongoing Duties Survey – Summer 2018[41]

Table 4.3.2 – Estimated cost of meeting ongoing duties per month (all with ongoing costs)

Median		Micro	Small	Medium
Median monthly cost	**Wave 3**	**£28**	**£50**	**£176**
	Wave 2	£18	£76	£150
	Wave 1	£42	£100	£175
Mean		Micro	Small	Medium
Mean monthly cost	**Wave 3**	**£41**	**£95**	**£247**
	Wave 2	£45	£98	£255
	Wave 1	£95	£170	£227

Base: All with ongoing costs (Wave 1 / Wave 2 / Wave 3 – Base, Don't know)
Micro (49, 20% / 56, 21% / 53, 13%), Small (64, 31% / 63, 21% / 73%, 3%), Medium (40, 30% / 40, 40, 8% / 29, 14%)

Notwithstanding the caveats noted above, the evidence available since the introduction of automatic enrolment is broadly consistent with the assumptions of administrative costs that were made in the 2010 Impact Assessment. The median implementation costs reported in EPP are somewhat lower than the mean year one costs assumed in the 2010 Impact Assessment, while figures from the Ongoing Duties Survey in table A2.2 support the hypothesis that median costs would be lower than mean costs. Comparisons between EPP and the Ongoing Duties Survey for employers using external advice suggests that implementation costs may be up to twice as large as year one costs, which is broadly consistent with the ratios assumed in the 2010 Impact Assessment, though at the lower range of the original assumptions. This suggests it is more likely that the original assumptions over-estimated the ongoing administrative costs than that they under-estimated them. As a result, the total administrative costs estimated in this Impact Assessment may be more likely to be an over-estimate than an under-estimate.

[41] Micro employers: one to four employees; small employers: five to 49 employees; medium employers: 50 to 249 employees.

Annex 3: Employer sizes

There is no direct information available on the varying sizes of employers of seafarers and offshore workers. Therefore, we make an assumption based on the national levels of participation into workplace pensions by eligible employees at different employer sizes. From the latest available statistics, around 23 per cent of eligible participants in the private sector in 2018 belong to small and micro employers.[42]

It is likely that the actual proportion of participating seafarers and offshore workers at small and micro employers is lower than the national average. The 2011 Impact Assessment made assumptions based on stakeholder feedback, that there were 170 firms employing offshore workers, and over 100 firms in the UK shipping industry. We can compare these figures against the minimum number of small and micro firms implied by an assumption that 23 per cent of seafarers and offshore workers are at small and micro firms.

To estimate the average size of employers in the seafaring industry, we use information on the total number of employees, including both land-based employees and those active at sea. Research published for Maritime UK in 2015 estimates that in total the UK shipping industry employed 133,900 people in 2013.[43] If the proportion of these at small and micro employers was the same as the national proportion of private-sector eligible participants into workplace pension schemes at small and micro employers (23 per cent), then this would imply a minimum of 623 small and micro employers in the UK shipping industry.[44]

The latest figures published by Oil & Gas UK estimate that in 2019, there were 30,600 employed directly by the UK offshore oil and gas industry. If the proportion of these at small and micro employers was around 23 per cent as above, then this would imply a minimum of 144 small and micro employers in the industry.

Based on the estimates of the total number of firms in the relevant industries made in 2011, it seems unlikely that the current number of small and micro firms in these industries would be as high as the minimum estimates implied by the assumption that 23 per cent of employees in these industries are at small and micro firms. Nonetheless, we use this assumption with the caveat that the estimates we make for the total administrative cost to employers are more likely to be an over-estimate than an under-estimate. Taking account of this, we assume that 23 per cent of employees in these industries are at small employers, and none are at micro employers.

[42] Figure derived from table 1.3 in Workplace pension participation and savings trends: 2008 to 2018; DWP. https://www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2008-to-2018

[43] Oxford Economics & Maritime UK: The economic impact of the UK Maritime Services Sector: Shipping (May 2015) https://www.britishports.org.uk/system/files/documents/shipping_the_economic_impact_of_the_uk_maritime_services_sector.pdf

[44] Minimum figure calculated on the basis of all these employers having 49 employees.