

Title: Automatic enrolment into workplace pensions: seafarers and offshore workers PIR No: RPC-4257(1)-DWP Original IA/RPC No: RPC11-DWP-0913 Lead department or agency: DWP Other departments or agencies: n/a Contact for enquiries: automaticenrolment.consultation@dwp.gsi.gov.uk	Post Implementation Review
	Date: 04/07/2018
	Type of regulation: Domestic
	Type of review: Statutory
	Date measure came into force: 01/07/2012
	Recommendation: Keep
	RPC Opinion: Green

1. What were the policy objectives of the measure?

The Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) Regulations 2012¹ and The Automatic Enrolment (Offshore Employment) Order 2012², extended the scope of automatic enrolment into workplace pensions to include seafarers and offshore workers if they are ordinarily working in the United Kingdom.

The legislation operates so that the relevant provisions under the Pensions Act 2008 in relation to automatic enrolment apply to seafarers and offshore workers who work, or ordinarily work, in the United Kingdom. If these workers meet the age and earnings criteria they need to be automatically enrolled and if they don't, they will need to be offered the opportunity to join a qualifying workplace pension scheme in most circumstances. All such workers must be given prescribed information about how automatic enrolment applies to them.

We estimate that there are approximately 27,000³ seafarers and offshore workers who are 'ordinarily working' in the UK and eligible to be automatically enrolled. At the end of April 2018, more than 9.6 million workers⁴ had been automatically enrolled into a workplace pension across all sectors of the UK economy.

2. What evidence has informed the PIR?

In line with the Regulatory Policy Committee proportionality guidance for departments, this measure would be rated as medium-high impact on the basis of the original 2011 Impact Assessment (IA)⁵, with an EANCB of £19m (medium impact) and NPV of £146m (high impact).

The aim of the policy assessed within the original IA was to bring particular groups of workers (seafarers and off-shore workers) into scope of the wider automatic enrolment policy. As stated in the 2011 IA, these groups combined make up less than 1 per cent of the overall eligible population for automatic enrolment⁶. Given the relatively small size, and specific nature, of these groups, there is little evidence publically available to inform the PIR.

In order to collect as much evidence as possible on the experience of the policy for these groups, we have undertaken stakeholder engagement exercises with those best placed to provide

¹ <https://www.legislation.gov.uk/ukxi/2012/1257/contents/made>

² <https://www.legislation.gov.uk/ukxi/2012/1388/contents/made>

³ DWP analysis

⁴ <http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf>

⁵ <https://www.gov.uk/government/publications/workplace-pension-reform-secondary-legislation-impact-assessment-final-stage>

⁶ Over 9.6 million workers in total have now been automatically enrolled (The Pensions Regulator, April 2018: <http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf>).

The total number of eligible seafarers and offshore workers at the time of the 2011 Impact Assessment was estimated to be 26,000.

information from the maritime and offshore industries and organisations that represent seafarers and offshore workers. This included following up with the same stakeholders who provided evidence and advice to inform the 2011 IA.

The stakeholder engagement exercises included:

1) Call for evidence

DWP published a 'call for evidence' on 19 July 2017. This sought views from representatives of industry, employer bodies, and individuals affected by the legislation covering seafarers and offshore workers.

The consultation resulted in responses from representative of employers and workers in the relevant industries, they were: the British Chamber of Shipping, Oil & Gas UK, the Offshore Contractors Association (OCA) and the Caterers' Offshore Trade Association (COTA). Representatives of individuals included the Rail and Maritime Union (RMT), Nautilus International (maritime union), Unite (union) and The Pension Advisory Service (TPAS).

2) A follow-up roundtable discussion;

DWP organised a stakeholder roundtable on 12 February 2018, with a view to strengthening the evidence base for this PIR. The following stakeholders responded to our invitation and attended on the day: Ensign (maritime master trust pension scheme); Nautilus (maritime union); UK Chamber of shipping; Mercer (law firm) which has clients in the maritime industries.

3) Subsequent targeted follow-up e-mails

DWP sent follow-up e-mails to the key stakeholders to test our assumptions and to attempt to collect updated quantitative evidence. One stakeholder (UK Chamber of Shipping) responded positively to this request.

The evidence provided by stakeholders has informed the findings presented in the PIR as far as possible. This has particularly informed our assessment of whether the policy is meeting its objectives and whether there have been any unintended consequences. However, stakeholders were largely unable to provide robust quantitative evidence to allow an assessment of the scale of any issues discussed. In order to update the cost benefit analysis from the 2011 IA, we have additionally sought evidence from a number of sources.

Since 2012, DWP has published annual evaluation reports for automatic enrolment, and most recently published the 2017 review of the policy and accompanying analytical report⁷. To further inform the PIR, we have drawn on this wider evidence base for automatic enrolment as a whole - where we believe it appropriate to do so (i.e. where we have been advised, or have reason to believe, that these groups are unlikely to substantially differ from the average picture).

Whilst the evaluations do not provide estimates for the specific groups affected here, they do provide an assessment of overall success, to date, of the wider automatic enrolment policy. The specific measure under review seeks to bring qualifying workers within the scope of this wider policy. In particular, key evidence has been obtained for employee behavioural responses to being automatically enrolled and potential employer burdens caused by implementing automatic enrolment. Such data allow us to review and update important assumptions made in the 2011 IA, and the potential impact on the cost benefit analysis.

⁷ <https://www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum> and <https://www.gov.uk/government/publications/automatic-enrolment-review-2017-analytical-report>

We have further sought to update key estimates within the original cost benefit analysis, as far as possible, using the limited secondary data that are available publically. Where this hasn't been possible, we have referred to the data provided by industry in 2011 to inform the original IA and tested with stakeholders that it is still appropriate to use this.

In collecting all of this evidence, we have sought to review what has happened to date (in 2018) against the forecast until this point in time within the original IA. We believe this is proportionate given that the appraisal period used in the IA was 39 years, and we are at an early stage of the measure and the wider policy.

In summary, we have used evidence from a variety of sources to collect the best possible evidence to inform the PIR, whilst ensuring a proportionate approach. Table 2.1 below summarises the evidence collection approaches used.

Table 2.1 – Summary of evidence used to inform the PIR

Type of evidence collection	Details	Evidence questions
Stakeholder consultation - Call for Evidence	Call for evidence launched for six weeks on 19 July 2017 ⁸ . Responses received from four stakeholders.	Whether policy is meeting its objectives; Whether policy had any unintended consequences; Whether key assumptions, costs and benefits estimated in the original IA were accurate.
Stakeholder consultation – Roundtable discussion	Roundtable discussion with stakeholders in February 2018 (four stakeholders responded to the invitation), to follow-up on themes explored in the call for evidence.	Whether policy is meeting its objectives; Whether policy had any unintended consequences; Whether key assumptions, costs and benefits estimated in the original IA were accurate.
Stakeholder consultation – targeted e-mails	E-mails sent to 10 key stakeholders following the Call for Evidence and roundtable discussion, to seek further detailed quantitative evidence to address remaining data gaps; Response received from one stakeholder.	Whether key assumptions, costs and benefits estimated in the original IA were accurate.
Findings from wider Automatic Enrolment Programme Research and Evaluation	Employer Pension Provision Survey (2015) published by the Department for Work and Pensions.	Whether key assumptions, costs and benefits estimated in the original IA were accurate. Evaluation evidence on key variables affecting the refresh of the cost-benefit analysis: <ul style="list-style-type: none"> • Level of opt-out; • Administrative costs to employers associated with implementing automatic enrolment.

⁸ <https://www.gov.uk/government/consultations/automatic-enrolment-defined-benefit-alternative-quality-requirements-and-provisions-for-seafarers-and-offshore-workers>

Secondary data sources	Seafarers Statistics: 2016 Report (2017) published by the Department for Transport ⁹ . Annual Survey of Hours and Earnings (2017, provisional estimates) published by the Office for National Statistics.	Whether key assumptions, costs and benefits estimated in the original IA were accurate. Updating evidence to input into refresh of the cost-benefit analysis: <ul style="list-style-type: none"> • Numbers of seafarers and offshore workers • Median salaries
Findings from the evidence provided in 2011 to inform the original Impact Assessment	Quantitative data and expert advice was provided by key stakeholders at the time of the original 2011 consultation; Where we have been unable to obtain updates to this data, we have tested whether it still remains valid with key stakeholders.	Whether key assumptions, costs and benefits estimated in the original IA were accurate.

3. To what extent have the policy objectives been achieved?

The 2012 regulations for seafarers and offshore workers require a review of the legislation to be carried out, which must in particular:

- set out the objectives intended to be achieved by the regulatory system established by these Regulations;
- assess the extent to which those objectives are achieved; and
- assess whether those objectives remain appropriate and, if so, the extent to which they could be achieved with a system that imposes less regulation.

Seafarers and offshore workers were initially not included in automatic enrolment under the Pensions Act 2008 to allow time for full consideration of a series of complex issues surrounding these groups. Both groups were subsequently brought into automatic enrolment by means of secondary legislation following a public consultation and government response in 2011¹⁰.

In the six years since 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.

When considering the extent to which the objectives have been achieved DWP was grateful for the input from industry groups and unions, which allowed officials to identify several issues around the detailed impact of the legislation, including:

- the scope of The Pension Regulator's ('the Regulator') detailed employer guidance and the wish for more detailed guidance to be available covering circumstances across the maritime industries;

⁹ Seafarer statistics: 2016 report: <https://www.gov.uk/government/statistics/seafarer-statistics-2016>

¹⁰ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/184761/workplace-pension-reform-consult-response.pdf

- the targeting of coverage (e.g. foreign nationals who may already have pension provision in their home country, or may not wish to participate in automatic enrolment);
- the diversity of seafaring employment (e.g. officers, ratings, hotel staff, technical specialists) and the implications for automatic enrolment eligibility, particularly where the terms of that employment may exclude the worker from the 'ordinarily working' test;
- perceived complexity of the 'ordinarily working' test may be leading some employers to enrol all staff, regardless of their status as qualifying workers.

Overall the concerns raised by stakeholders were similar to those from the 2011 consultation prior to the introduction of the legislation, including the desire of some respondents to see the 'ordinarily working' test be made more specific for this group of workers. Although the government remains open to the possibility of improving the operation of the legislation, the suggestions for an eligibility test based on: nationality; residency; or the country of registration of a ship are problematic because of the risks of legal challenge on grounds of discrimination in favour of UK nationals (as opposed to workers ordinarily working in the UK). Similarly, a test linked to the country of registration of a ship would create incentives for 'flagging out' (registering ships elsewhere than in the United Kingdom) to avoid the automatic enrolment duties; as well as the potential for detrimental impact on the UK shipping industry.

In addition, there are potential risks to the coherence of automatic enrolment in that a move away from the 'ordinarily working' test for the maritime industries would generate pressure from other sectors of the economy with non-typical employment patterns (e.g. agricultural seasonal workers) for industry specific qualifying tests for their workers, thereby diluting the policy intention to provide broad and consistent coverage of all UK workers.

DWP considered stakeholder comments about the detailed employer guidance issued by the Regulator. Although the Regulator did not have any records of formal concerns being raised about the detailed employer guidance by maritime employers since 2012; their compliance experts confirmed specific queries on matters of guidance interpretation can be raised through their employer call centre. The Regulator is willing to engage with any employer experiencing difficulties with applying the guidance to complex employment circumstances.

Regarding foreign nationals being included within the scope of automatic enrolment, the government recognises that this situation may arise for foreign workers in any sector of the UK workforce and the policy design gives each worker the option to exercise an 'opt-out' from automatic enrolment (and to be provided with information about the opt-out process), if they genuinely and freely believe pension saving is not suitable for them.

DWP engagement with stakeholders on the application of the 'ordinarily working' test to workers in the maritime industries yielded anecdotal evidence about groups of seafarers that are believed to be part of the target audience for the reforms; but who may fall outside the definition of ordinarily working that is at the core of the eligibility criteria. The concern was expressed that the most affected group is thought to be younger workers, who are unlikely to have access to more generous (legacy) pension schemes covering their older colleagues.

The Regulator's guidance states that where a worker is not wholly working in the UK, it will need to be established whether the worker 'ordinarily works in the UK', and the primary issue to be considered is where the worker is based. The starting point for determining where a worker is based will be what the worker's contract of employment says and also how the contract is operated in practice. The 'ordinarily working' test creates a link between the seafarer and the UK unrelated to whether the seafarer's vessel enters UK waters. Thus, it is possible to apply domestic UK legislation to the seafarer without impinging on the UK's obligations under international law. Since the introduction of these regulations in 2012, the definition of 'ordinarily working' for seafarers has been clarified by the Courts (*Fleet Maritime Services (Bermuda) Ltd* in

2016)¹¹.

Stakeholders gave the example of UK workers on vessels that operated entirely outside the UK: although these individuals could be employed by UK based employers; they were contracted to a term of employment on a vessel working outside UK territorial waters, with the worker travelling to a third country before beginning their term of employment on board ship - maritime workers¹² in these circumstances would be excluded from the scope of automatic enrolment. However, no stakeholder was able to provide quantitative data about how many workers might be employed in these circumstances, whether the workers were likely to meet the other criteria for 'eligible jobholders', and whether these periods of employment were short-term and temporary or long-term assignments, where the risk of inability to participate in automatic enrolment during lengthy periods of employment would be more likely to have a detrimental effect on a worker's ability to accrue pension savings.

Since the introduction of these regulations in 2012, government has recognised that the global nature of the shipping industry and the complexity of international trading patterns would mean that not all British seafarers could be covered by the reforms and some foreign seafarers (who do not intend to settle in the UK) may find themselves included within automatic enrolment. However, given the diversity of employment arrangements it is very difficult to define with absolute precision the types of workers we want to capture without leaving loopholes for the policy to be evaded. A more prescriptive test could, for example, give incentives for companies to change the terms of their contracts to avoid automatically enrolling their staff. And if we were to use a different test in these circumstances, we would not be treating them consistently with land-based workers and peripatetic workers in other industries.

DWP is therefore satisfied that the 'ordinarily working' test remains the most suitable for seafarers and offshore workers, and for automatic enrolment generally, so as to continue to capture the greatest number of the target population of workers, without leaving loopholes which would significantly undermine the policy intention.

DWP considered as well whether it might be possible to achieve the policy objective with a reduced level of regulatory burden for maritime employers. However, it was clear that any move to weaken the compliance regime would undermine the policy intention to ensure all employers are subject to the automatic enrolment duties if they employ qualifying workers, and would lead to industry specific carve-outs which have already been rejected as damaging to the coherence of the reforms.

Recommendation:

Following DWP's engagement with stakeholders and having considered the evidence available to us on the impact and coverage of the regulations, we are satisfied that:

- the regulations are meeting the objective to extend automatic enrolment to seafarers and offshore workers;
- there is no significant evidence to indicate that a different legislative approach would deliver better outcomes for the majority of seafarers and offshore workers;
- the original policy objective to extend the coverage of automatic enrolment to the greatest number of UK workers remains appropriate, and that the associated burdens on business are at the minimum practical level consistent with effective implementation of the policy.

Our recommendation is to keep the 'ordinarily working' test for automatic enrolment for seafarers and offshore workers.

¹¹ <http://www.thepensionsregulator.gov.uk/press/pn16-02.aspx>

¹² It should be noted that the 'ordinarily working' test does not arise for offshore workers. They are deemed as ordinarily working in the UK territorial sea, UK continental shelf, or in the UK sector of a cross-boundary offshore field.

DWP will however continue to work with the maritime industries and worker representatives to explore the feasibility of collecting further evidence on the operation of automatic enrolment for these workers and their employers.

Technical operation of automatic enrolment for seafarers and offshore workers:

Stakeholders raised an issue around the automatic enrolment 'opt-out' process (any worker wishing to exercise their right to opt-out of a workplace pension must do so within 1 month of being automatically enrolled in a new employment) and its application to seafarers and offshore workers. Stakeholders suggested anecdotally that the specific circumstances of employment on board ship meant that workers were often unable to complete the opt-out process because of limited ship board communications, e.g. intermittent and costly connection to the internet.

DWP is sympathetic to the difficulties experienced by workers at sea but we did not consider that a significant detriment could be shown to be caused to individuals on a systematic basis in this situation. In addition to the 1 month opt-out window for the individual, an administrative easement is available to the employer allowing a 3 month postponement period to be applied to automatic enrolment at the start of a new employment. DWP is satisfied there is sufficient flexibility for the worker, and scope for the employer to take account of individual circumstances (e.g. whether pension saving should commence on the first day of employment, or at a more convenient point within the 3 month postponement window, when the worker is not out of communication on board ship or offshore installation).

Specific impacts:

A public authority must, in the exercise of its functions, have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The equality impacts for the seafarers and offshore legislation are considered here in as far as they can be assessed with the data currently available.

Small firms

The 2010 Workplace Pension Reform Regulations Impact Assessment¹³ set out the full impacts of the legislation for small employers in detail. The Making Automatic Enrolment Work Review¹⁴ looked carefully at whether there was a case for excluding small and micro-employers from the scope of the policy. The review decided against this but instead focused on a series of easements expected to have larger benefits for smaller employers. These were also discussed in the Pensions Act 2011 Impact Assessment¹⁵ and include:

- Postponement (waiting period) which will benefit smaller firms with higher staff turnover more than larger firms.
- The higher earnings threshold for automatic enrolment which will benefit smaller firms more than larger firms as smaller employers tend to have a higher proportion of relatively low wage workers than larger employers.
- Flagging NEST to small and micro employers, so that small employers are clear that NEST has been designed to meet their needs.

¹³ <http://www.legislation.gov.uk/ukxi/2010/917/impacts>

¹⁴ <https://www.gov.uk/government/publications/making-automatic-enrolment-work-a-review-for-the-department-for-work-and-pensions>

¹⁵ <http://www.legislation.gov.uk/ukpga/2011/19/impacts>

There is little information on how many employers of different sizes there are within the shipping and offshore industries. The automatic enrolment reforms were designed to increase individual pension saving while minimising the burden on employers and industry. While small employers of eligible seafarers and offshore workers have to comply with the requirements, they also benefit from the administrative easements specifically designed in order to help smaller employers.

Competition

A full competition assessment of the impact of the reforms on the pension industry was set out in the Impact Assessment (2010) on the workplace pension reforms. The proposals to bring offshore workers and seafarers within automatic enrolment were deemed to have created a small amount of extra demand for workplace pensions across the market. Overall however, the changes discussed in the 2011 Impact Assessment are considered to have had a negligible effect on competition.

Gender

Historically women's pension provision was generally poorer than men's¹⁶ for a number of reasons including women receiving lower salaries compared with men and having lower levels of economic activity. Offshore workers are generally higher earners, earning more than the average. Women make up less than 4 per cent of the offshore industry¹⁷. In the seafaring industry, officers are generally higher earners, earning more than the average. Women make up 3 per cent of UK certified officers, 25 per cent of UK uncertified officers and 32 per cent of ratings¹⁸.

However, the overall gap in pension participation (for all men and women in the public and private sector combined) has narrowed from seven percentage points to three percentage points between 2012 (the start of automatic enrolment) and 2016. Since the introduction of automatic enrolment, the largest increases in participation were seen in the private sector. In 2016, there was no gender gap in participation, with 73 per cent of men and women participating. This represents a 30 percentage point increase for males and 33 percentage point increase for females since 2012.¹⁹

Race

We have no evidence to suggest that there would be disproportionate impacts for minority ethnic groups within the changes proposed. Minority ethnic groups are slightly more likely to be in their current employment for less than three months than those from a white ethnic group; therefore minority ethnic groups will be proportionately more likely to receive a postponement notice. Receiving²⁰ the notice and being alerted to their right to opt in and receive an employer contribution allows affected individuals the flexibility to benefit from pension saving, if they wish to do so.

Disability

We have no evidence to suggest that these measures have had disproportionate impacts for those with disabilities.

Age

Since the introduction of automatic enrolment, pension participation remained higher for older employees, but in recent years there have been significant increases in participation amongst younger age bands and, as a result, some convergence in participation levels between age bands.

¹⁶ Workplace Pension Reform Regulations – Impact Assessment, Department for Work and Pensions, January 2010 – Annex C.

¹⁷ <https://oilandgasuk.co.uk/workforce-report/>

¹⁸ Seafarer statistics: 2016 report: <https://www.gov.uk/government/statistics/seafarer-statistics-2016>

¹⁹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/668657/automatic-enrolment-review-2017-analytical-report.pdf (page 38).

²⁰ <http://www.legislation.gov.uk/uksi/2010/917/impacts>

The greatest increase between 2012 and 2016 was in the youngest age band; those aged 22 to 29 saw over a 36 percentage point increase in participation to 72 per cent. All other age groups saw an increase over the same period; ages 30 to 39 increased their participation by 23.4 percentage points to 77 per cent, 40 to 49 had a 19 percentage point increase to 81 per cent and those aged between 50 and State Pension Age (SPA) increased participation by 18.1 percentage points to 80 per cent.²¹

In general, automatic enrolment has helped to reduce gaps in pension participation amongst different age groups as outlined above. However, only those aged 22 and above are currently eligible for automatic enrolment. The 2017 review of automatic enrolment²² announced the policy intention to lower this age limit to 18 years in future.

Sexual orientation

We have no evidence to indicate that these measures have had a disproportionate impact for individuals of different sexual orientations.

Religion or belief

We have no evidence that these measures have disproportionately affected individuals of different religions or beliefs.

²¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/668657/automatic-enrolment-review-2017-analytical-report.pdf (page 39)

²²<https://www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum>

4. What were the original assumptions?

4.1 Costs and benefits from the 2011 IA

The key monetised costs and benefits set out in the 2011 Impact Assessment were related to: 1) transfer costs and benefits and 2) resource costs, as reproduced here in Tables 4.1 and 4.2 below respectively. The appraisal period for the measure was from 2012 to 2050, over a period of 39 years.

Table 4.1 – Reproduction of transfer costs and benefits from 2011 Impact Assessment (p.7)²³

Table 0.1: Estimated transfer costs and benefits arising from bringing seafarers and offshore workers within the scope of automatic enrolment (£ million)							
	Annual average	One-off cost (present value)	2012	2020	2030	2040	2050
Individuals							
Contribution Costs	-20	0	-6	-16	-20	-24	-29
Savings into private pensions	43	0	14	35	43	52	64
Net benefit	23	0	8	19	23	28	34
Employers							
Contributions Costs	-16	0	-5	-14	-16	-20	-24
Government (income tax relief)							
Contribution Costs	-7	0	-3	-6	-7	-8	-10
Total							
Net Benefit	0	0	0	0	0	0	0

Notes:

- Figures are expressed in 2011/12 price terms; present values are 2011/12 based.
- Costs shown include increases in earnings over and above price inflation.
- Figures are rounded to the nearest £1 million.
- The employer costs presented here are the sum of employer contributions and any tax relief available on those contributions. The distribution of these costs will depend on how employers manage these costs and over what time period.
- Costs are presented as negative numbers, benefits as positive numbers.
- Information on the staging of employers is not currently available for seafarers and offshore works and so it is assumed that the duties begin in 2012. The phasing of contributions is accounted for.

The individual contribution costs in Table 4.1 refer to the cash contributions made by employees into their pension savings, based on a percentage contribution of their qualifying earnings²⁴. Similarly, the employer contribution costs are based on the cash contributions made by employers into employees' pension savings, based on a percentage contribution of their employee's qualifying earnings. In both cases, it is assumed that employees and employers are making contributions at the minimum contribution rate²⁵. The government contribution costs in tax relief reflect the costs to the Exchequer of tax relief on individuals' pension contributions. Finally, the savings into private pensions are the sum of individual and employer contributions and Government tax relief. Thus, the key net benefit shown in this table is the transfer of costs for individuals, employers and government into the pension savings for individual employees within the seafaring and offshore working industries.

²³ <https://www.gov.uk/government/publications/workplace-pension-reform-secondary-legislation-impact-assessment-final-stage>

²⁴ <http://www.thepensionsregulator.gov.uk/automatic-enrolment-earnings-threshold.aspx>

²⁵ <http://www.thepensionsregulator.gov.uk/en/employers/phasing-increase-of-automatic-enrolment-contribution>

Table 4.2 – Reproduction of resource costs and benefits from 2011 Impact Assessment (p.8)²⁶

Table 0.2: Estimated resource costs (£ million)							
	Annual average	One off cost (present value)	2012	2020	2030	2040	2050
e) Employer administrative costs for seafarers and offshore workers	-0.5	-0.6	-0.3	-0.4	-0.5	-0.7	-0.8
f) Employer administrative costs from the waiting period notice for all eligible workers	-6.8	0.0	-2.0	-5.1	-6.2	-7.6	-9.2
Net Benefit	-7.3	-0.6	-2.4	-5.5	-6.8	-8.2	-10.1

Notes:

- Figures are expressed in 2011/12 price terms; present values are 2011/12 based.
- Costs are presented as negative numbers, benefits as positive numbers.
- All figures are rounded to the nearest £0.1 million.
- Information on the staging of employers is not currently available for seafarers and offshore works and so in the analysis it is assumed that the duties apply from 2012. This means that the one off costs all occur in 2012 and that automatic enrolment of the stock of jobholders, not currently in a workplace pension scheme, also occurs in 2012.

Table 4.2 sets out the administrative costs for employers of implementing automatic enrolment for their eligible employees and for administering a waiting period notice of three months. The latter was considered to be especially beneficial for these particular groups where it would be common to have short-term, temporary workers and the option to use a three month waiting period would allow employers to avoid enrolling these individuals into a pension scheme. Whilst administering a waiting notice period has an associated administrative cost, the employer saves money on the pension contributions they do not have to make during this period for the individuals in question.

4.2 Reviewing the costs and benefits from the 2011 IA

Our methodological approach for reviewing the costs and benefits from the 2011 IA is as follows:

- Updating the estimates of contribution costs for individual employees and employers and for government in the form of tax relief; and
- Comparing the administrative costs forecast for employers against evidence obtained on such costs from the wider evidence on automatic enrolment to date.

In undertaking this review, our aim is to test the overarching key principles and assumptions underpinning the original analysis, to see if there are any substantial variations from that originally forecast and the implications of these – both to inform our view of the policy, and for future appraisals of this kind. However, we do not consider it proportionate to re-undertake detailed modelling of the kind conducted for the 2011 IA at this stage, as this would involve substantial resource and re-forecasting for future years of the programme, which we do not see as the primary purpose of this review.

i) Updating contribution costs

Stakeholders were not able to provide actual data on the number of workers from these groups that had been enrolled and their pension savings behaviour. However, we tested with

²⁶ <https://www.gov.uk/government/publications/workplace-pension-reform-secondary-legislation-impact-assessment-final-stage>

stakeholders whether the key input assumptions for the 2011 modelling remained valid, and have updated these where possible using publically available data and evidence from the wider evaluation of automatic enrolment. The tables provided in **Annex A** outline the assumptions underpinning the cost benefit analysis, and where (and how) these have been updated in relation to those used in the 2011 IA.

Broadly speaking, the assumptions used for the 2011 IA have changed very little, or in line with expectations (e.g. earnings, thresholds updates). The main change from the 2011 IA is for the assumed opt-out rate, which is the percentage of individuals who will choose to opt-out of pension saving within one month of being automatically enrolled. The 2011 IA assumed this opt-out rate would be 25per cent in line with the assumptions at the time for the automatic enrolment programme as a whole. However, to date, opt-out rates for the programme have been much lower than expected and currently stand at 9 per cent on average²⁷. This in itself can be considered a success of the overall policy in that more individuals are saving for retirement, but necessarily will have higher total contribution costs associated with it due to the greater numbers – although these will still be transferred to individuals as a net benefit overall.

Whilst 9 per cent represents the current overall opt-out rate for automatic enrolment, stakeholders were not able to provide any evidence that opt-out rates would vary for offshore workers and seafarers. However, it could be the case that these groups are different in nature to the wider eligible working population. To account for this, we have updated the analyses using both 9 per cent and 25 per cent opt-out rate scenarios.

Table **4.3** below shows a summary of our updated contribution costs and benefits estimates. Annual figures are presented for 2017 (pre-phasing²⁸), 2018 (post April 2018 phasing²⁹) and 2019 (post April 2019 phasing³⁰) to give a snapshot of the current picture. These are compared to the average annual estimates from the 2011 IA, which largely reflect the picture post-phasing given the appraisal period of 39 years.

²⁷ Automatic Enrolment Review 2017: Analytical Report

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/668657/automatic-enrolment-review-2017-analytical-report.pdf

²⁸ Minimum contribution rates (basic rate tax payer) = 1% for employers, 0.8% for employees and 0.2% tax relief. Minimum contribution rates (higher rate tax payer) = 1% for employers, 0.6% for employees and 0.4% tax relief.

²⁹ Minimum contribution rates (basic rate tax payer) = 2% for employers, 2.4% for employees and 0.6% tax relief. Minimum contribution rates (higher rate tax payer) = 2% for employers, 1.8% for employees and 1.2% tax relief.

³⁰ Minimum contribution rates (basic rate tax payer) = 3% for employers, 4% for employees and 1% tax relief. Minimum contribution rates (higher rate tax payer) = 3% for employers, 3% for employees and 2% tax relief.

Table 4.3 – Updated estimated transfer costs and benefits (£million)

	IA estimates (2011)		PIR estimates (2018)					
	Average annual estimates (2012 to 2050)		2017		2018		2019	
			Min	Max	Min	Max	Min	Max
Individuals								
Contribution costs	-23		-4	-5	-12	-16	-19	-26
Savings into private pensions	50		10	13	27	35	42	56
Net benefit	27		6	8	15	19	23	30
Employers								
Contribution costs	-18		-5	-6	-11	-14	-16	-21
Government (income tax relief)								
Contribution costs	-8		-1	-2	-4	-5	-7	-9
Total								
Net benefit	0		0	0	0	0	0	0

Notes:

- We run a number of scenarios for the updated PIR estimates, to include sensitivity analyses for opt-out rates (9 per cent and 25 per cent) (see Annex A) – therefore we present the minimum and maximum estimates here.
- The IA and PIR estimates are not completely comparable because we use a more simplistic, but equivalent, methodology for the PIR estimates.
- Costs are presented as negative numbers, benefits as positive numbers.
- Prices are rounded to the nearest £million.
- The PIR estimates are based on 2018/19 price terms (we have uprated the 2011 IA estimates for comparability)

Overall, these different scenarios do not necessarily lead to large differences in estimates from those shown in the 2011 IA, given that the overall populations of eligible workers in these particular groups are small³¹. The range of estimates for 2019 show that the original annual average estimates from the 2011 IA fall within this range. These are close because both sets of estimates reflect the situation post ‘phasing’ of contribution increases. If opt-out is at 25 per cent for this group, as originally forecast, the costs may now be slightly lower but broadly in line with the forecast annual average³². However, if opt-out is lower at 9 per cent, as has been found for automatic enrolment as a whole, then the costs are likely to be slightly higher as Table 4.3 shows, though the overall difference is quite small.

In all of these scenarios, we have assumed the minimum contribution levels for employers and employees. Wider automatic enrolment evidence has shown that a significant minority (32 per cent) of employers have chosen to make contributions above the minimum level³³. In this case, the employer contribution costs pre-phasing (before 2018) could be closer to those shown for post-phasing (2019) in Table 4.3. However, we do not have robust evidence on the extent to which employers in these groups pay above the minimum, although there was some anecdotal evidence in support of this at the roundtable discussion.

³¹ Estimated at 27,000 in our updated analysis for this PIR.

³² This is likely due to the fact we are comparing an updated estimate for one year (2019) with the annual average across 39 years for the 2011 IA, which had accounted for earnings growth across the appraisal period.

³³ <https://www.gov.uk/government/publications/employers-pension-provision-survey-2015>

The absence of data for these specific groups introduces more uncertainty into the analysis presented above. Furthermore, some stakeholders mentioned factors which could lead to these costs and benefits being significantly revised in either direction, such as some workers not currently falling in scope of the 'ordinarily working' definition as intended versus employers enrolling more workers than necessary to be safe as they find the current guidance unclear. Without any robust or quantitative evidence on the prevalence of these issues, we are unable to account for these in the cost benefit analysis at present. This is a limitation of the evidence currently available.

ii) Evidence on administrative costs

Our main source of evidence on administrative costs is from the Employers' Pension Provision Survey 2015 (EPPS15)³⁴. In terms of the one-off costs of implementing automatic enrolment, EPPS15 found that the overall median cost per worker was £16. A key factor in determining this cost was whether employers had sought paid advice, with the median cost of £43 per worker for those who had, and a median cost of £0 per worker for those who had not. Many of the latter group reported little to no cost of implementing automatic enrolment.

These costs compare favourably to those which had been forecast in the 2011 IA, where the year 1 costs of implementing automatic enrolment per worker were expected to be higher at all employer sizes than those that were found in EPPS15.

In total, this gives an estimated total cost of £0.6 million for employers of offshore workers and seafarers combined implementing automatic enrolment in year 1, which is comparable to that from the IA. Despite the lower costs than forecast, the figures are likely to be similar due to the slightly higher numbers of eligible workers in these groups found in our updated estimates.

The 2011 IA also estimated ongoing administrative costs for employers, but we do not have evidence on these costs from EPPS15 although some employers did indicate that substantial work could be involved. We would expect these costs to be lower than the initial up-front set-up costs in most cases.

The other administrative cost estimated in the IA was for employers administering a waiting notice period. Unfortunately, we have very little evidence to allow us to update these assumed costs and benefits. EPPS15 showed that approximately half of the employers that had staged at that time had used a form of postponement. However, we are unable to estimate from this for how many employees it would have been used for and hence the costs of administering the notices versus the saved contributions.

The estimates in this section are based on all employers implementing automatic enrolment, as we lack disaggregated data on the experiences of employers of offshore workers and seafarers.

4.3 Lessons learned from reviewing the original assumptions

The review of costs and benefits estimated in the 2011 IA, where possible, has not revealed any major issues. The main deviation from that forecast was for the opt-out assumption, which was not specific to this measure but was found for the wider automatic enrolment policy also. Although this estimate was originally based on stated preference survey evidence for the wider Automatic Enrolment policy, it is inevitably difficult to forecast the behavioural response to a major change programme that was transformative and innovative in nature. The lower opt-out rate is a success of the policy with more individuals remaining in saving. This will mean greater costs for employers, but also greater net transfers to individuals via pension savings.

³⁴ <https://www.gov.uk/government/publications/employers-pension-provision-survey-2015>

The biggest limitation in updating the original assumptions has been the difficulty in obtaining data specific to the group of offshore workers and seafarers affected by this particular measure. Despite concerted efforts at stakeholder engagement, we have obtained very little robust quantitative data on this group, and generally had to rely on wider automatic enrolment evaluation evidence or that obtained from the original consultation. However, this measure exists because these groups are unlike other workers in nature, and therefore it is questionable to what extent we can generalise wider automatic enrolment evidence here. Stakeholders have suggested some areas of potential concern for these groups, but we have been unable to quantify the scale and prevalence of such issues.

The groups in question are relatively small, and it is unlikely to be proportionate or feasible to attempt to sample them through wider surveys or means of evidence collection. Going forward, we envisage more targeted and intensive stakeholder engagement and data requests as our best means of updating our quantitative evidence on this topic. However, we have attempted extensive stakeholder engagement through this exercise, which has provided little data, so we will need to consider how, and whether, this can be made more effective.

5. Were there any unintended consequences?

Costs to business (as employers) higher (due to lower opt-out rate than expected for automatic enrolment). This is discussed in more detail in paragraph 4.3. The lower opt-out rate is a success of the policy with more individuals remaining in pension saving. This will mean greater costs for employers, but also greater net transfers to individuals via pension savings.

6. Has the evidence identified any opportunities for reducing the burden on business?

Stakeholder feedback indicates that there may be an opportunity for the maritime industry to work with The Pensions Regulator to look at possible additions to the detailed employer guidance for automatic enrolment to take account of complex employment situations within the maritime industries. The Regulator has well established processes to facilitate engagement with employers covered by the automatic enrolment duties, principally through its website (<http://www.thepensionsregulator.gov.uk/en/employers.aspx>) and employer call centre (telephone: 0345 600 2475).

7. For EU measures, how does the UK's implementation compare with that in other EU member states in terms of costs to business? (Maximum 5 lines)

Not applicable.

Sign-off for Post Implementation Review: DWP Chief Economist and the Minister for Pensions and Financial Inclusion.

I have read the PIR and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.

Signed: **Andrea Lee**

Date: 21/05/2018

A handwritten signature in blue ink, appearing to read 'S. P. Pensions', with a stylized flourish underneath.

Signed:

Date: 04/06/2018

Annex A – Key assumptions informing the cost benefit analysis (comparison of 2011 IA with 2018 PIR)

Assumptions	Estimates used for final stage impact assessment (2011)	Estimates used for PIR (2018)
Offshore workers		
Number of workers on UK Continental Shelf	22,200 (supplied by Oil and Gas UK)	23,651 ³⁵ (updated previous data source with latest publication)
Ordinarily working in GB	All (100%)	All (100%) - responses from stakeholders in the call for evidence and further consultation support this assumption
Qualifying age (over 22 and below SPA)	All (100%)	All (100%) – based on previous assumption ³⁶
Employees under a ‘worker’s contract’	All (100%)	All (100%) – based on previous assumption ³⁷
Qualifying earnings above the earnings trigger	For earnings trigger: £7,475 - All (100%)	For earnings trigger: £10,000 ³⁸ - All (100%) based on stakeholder feedback
Average annual earnings	More than £38,185 – confirmed by Oil and Gas UK	£43,370 (Uprated 2011 earnings estimate)
Proportion saving in a qualifying pension scheme pre-2012	60% (confirmed by both Oil and Gas UK and RMT)	60% - based on previous assumption ³⁹
Opt-out rate	25%	9% ⁴⁰ (national opt-out rate for automatic enrolment) – we also conduct sensitivity analysis using the original estimate of 25%
Size of firms	Unknown	Unknown

³⁵ <https://oilandgasuk.co.uk/workforce-report/>

³⁶ http://www.legislation.gov.uk/ukia/2011/486/pdfs/ukia_20110486_en.pdf

³⁷ http://www.legislation.gov.uk/ukia/2011/486/pdfs/ukia_20110486_en.pdf

³⁸ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/670634/review-of-automatic-enrolment-earnings-trigger-and-qualifying-earnings-band-2018-19-supporting-analysis.pdf

³⁹ http://www.legislation.gov.uk/ukia/2011/486/pdfs/ukia_20110486_en.pdf

⁴⁰ <https://www.gov.uk/government/publications/automatic-enrolment-review-2017-analytical-report>

Assumptions	Estimates used for final stage impact assessment (2011)	Estimates used for PIR (2018)
Seafarers		
Number of workers	11,000 UK Ratings 15,000 UK Officers 58,000 Foreign Nationals	8,880 UK Ratings ⁴¹ 12,320 UK Officers ⁴² 98,200 Foreign nationals ⁴³ (updated previous data sources with latest publications)
Ordinarily working in GB	90% (Ratings) 45% (Officers) <10% (Foreign Nationals)	90% (Ratings) 45% (Officers) <10% (Foreign Nationals) Based on previous assumptions ⁴⁴
Qualifying age (over 22 and below SPA)	All (100%)	96% ⁴⁵ (Ratings) 92% ⁴⁶ (Officers) 96% ⁴⁷ (Foreign Nationals)
Employees under a 'worker's contract'	All (100%)	All (100%) – based on previous assumption ⁴⁸
Qualifying earnings above the earnings trigger	For earnings trigger: £7,475 - All (100%)	For earnings trigger: £10,000 ⁴⁹ - All (100%) Based on stakeholder feedback

⁴¹Seafarer statistics: 2016 report: <https://www.gov.uk/government/statistics/seafarer-statistics-2016>

⁴²Seafarer statistics: 2016 report: <https://www.gov.uk/government/statistics/seafarer-statistics-2016>
2016

Seafarer statistics: 2016 report: <https://www.gov.uk/government/statistics/seafarer-statistics-2016>

⁴³https://www.britishports.org.uk/system/files/documents/shipping_the_economic_impact_of_the_uk_maritime_services_sector.pdf

⁴⁴http://www.legislation.gov.uk/ukia/2011/486/pdfs/ukia_20110486_en.pdf

⁴⁵Seafarer statistics: 2016 tables: http://www.legislation.gov.uk/ukia/2011/486/pdfs/ukia_20110486_en.pdf

⁴⁶Seafarer statistics: 2016 tables: http://www.legislation.gov.uk/ukia/2011/486/pdfs/ukia_20110486_en.pdf

⁴⁷Seafarer statistics: 2016 tables: http://www.legislation.gov.uk/ukia/2011/486/pdfs/ukia_20110486_en.pdf

⁴⁸http://www.legislation.gov.uk/ukia/2011/486/pdfs/ukia_20110486_en.pdf

⁴⁹http://www.legislation.gov.uk/ukia/2011/486/pdfs/ukia_20110486_en.pdf

Assumptions	Estimates used for final stage impact assessment (2011)	Estimates used for PIR (2018)
Average annual earnings	<p>Ratings: £28,100 men, £22,500 women</p> <p>UK Officers: >£38,185</p> <p>Foreign Nationals: £28,100 men, £22,500 women</p>	<p>Ratings: £30,103⁵⁰ men, £25,308⁵¹ women</p> <p>UK Officers: £43,370 (Upated 2011 earnings estimate)</p> <p>Foreign Nationals: £30,103⁵² men, £25,308⁵³ women</p> <p>(Most recent data available so also used for 2018 and 2019 estimates)</p>
Proportion saving in a qualifying pension scheme pre-2012	<p>20% (Ratings)</p> <p>45% (Officers)</p> <p>0% (Foreign Nationals)</p>	<p>20% (Ratings)</p> <p>45% (Officers)</p> <p>0% (Foreign Nationals)</p> <p>Stakeholder responses support this assumption</p>
Opt-out rate	25%	9% ⁵⁴ (national opt-out rate for automatic enrolment) – we also conduct sensitivity analysis using the original estimate of 25%
Size of firms	Unknown	Unknown

⁵⁰<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/agegroupashtable6>

⁵¹<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/agegroupashtable6>

⁵²<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/agegroupashtable6>

⁵³<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/agegroupashtable6>

⁵⁴<https://www.gov.uk/government/publications/automatic-enrolment-review-2017-analytical-report>