

## Summary: Intervention & Options

<b>Department /Agency:</b> DWP	<b>Title:</b> Impact Assessment of Workplace Pension Reform (Completing the Picture) Regulations 2010	
<b>Stage:</b> Consultation	<b>Version:</b> Consultation stage	<b>Date:</b> 24 September 2009
<b>Related Publications:</b> Pensions Act 2008; Pensions Bill - Impact Assessment, April 2008; Pensions Act 2007 and RIA; May 2006 White Paper and RIA; December 2006 White Paper and RIA.		

Available to view or download at:

<http://www.dwp.gov.uk/policy/pensions-reform/>

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

Millions of people in the UK are not saving enough for their retirement. Moderate to low earners in particular are less likely to be saving in a private pension than other income groups, with barriers preventing people from starting saving: many have a poor understanding of pensions and the need to save, with inertia preventing people from saving even when they are aware they need to do so. The traditional route to retirement - occupational pension provision - is in long term decline and changing in nature, and pension providers have not targeted lower income groups because of high upfront selling costs. The Pensions Commission reported that whilst there was no immediate pensions crisis, the existing pension system had to be reformed to meet several long term challenges.

### What are the policy objectives and the intended effects?

The policy aims to enable moderate to low earners to save more for retirement. These regulations meet each of the Government's five tests: to support personal responsibility, ensure fairness and simplicity, and deliver a package that is sustainable and affordable; and builds on the State Pension reforms implemented in the Pensions Act 2007. The intended effects are to improve individuals' incomes in retirement by making it easier and more attractive to save and to tackle inertia through automatic enrolment. The Government supports employers who voluntarily provide a good workplace pension scheme for their employees. These reforms should have a positive social welfare impact of £40 billion from 2012 to 2050, and potential 0.2 per cent rise in Gross National Product in the long run.

### What policy options have been considered? Please justify any preferred option.

The Pensions Act 2008 gives the Secretary of State the power, through regulations, to ensure that the reforms are implemented effectively and fairly with minimal employer burdens. The measures set out in the consultation document and draft regulations should greatly improve retirement incomes. Without reform there could be pressure to increase State Pensions, and the projected growth in the number of pensioners relative to those of working age would make this very costly to fund. The Government believes, and is supported by a consensus, that the reforms set out in the Act constitute the most effective form of Government intervention.

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?** There will be a review of key decisions relating to the reforms in 2017. The Personal Accounts Delivery Authority will be set objectives against which it will have to report annually. This will cease when the Personal Accounts scheme is established.

**Ministerial Sign-off** For consultation stage Impact Assessments:

*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 Minister:

Date: 24 September 2009

## Summary: Analysis & Evidence

<b>Policy Option:</b>	<b>Description:</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups' costs shown are average annual: Transfers: Employer contributions – £5.5 billion, Individual contributions - £7 billion, Government (tax relief, income-related benefits and additional pension) - £2 billion; Resource costs: Employer administrative costs - <£0.5 billion.
	<b>One-off</b> (Transition) <b>Yrs</b>	
	<b>£ 0.3 billion</b> 1	
	<b>Average Annual Cost</b> (excluding one-off)	
	<b>£ 10-15 billion</b>	<b>Total Cost (PV)</b> <b>£ 200-250 billion</b>
Other <b>key non-monetised costs</b> by 'main affected groups' Compliance and related costs (commercially sensitive).		

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups' Transfers: Individuals – higher income in retirement (£15 billion per year of net pension income and tax revenue by 2050); Government: reduction in income-related benefit expenditure (£0.6 billion by 2050), Additional Pension (<£0.5 billion), Employers – lower revaluation cap, £250 million per year on average.
	<b>One-off</b> <b>Yrs</b>	
	<b>£ 0</b>	
	<b>Average Annual Benefit</b> (excluding one-off)	
	<b>£ 10-15 billion</b>	<b>Total Benefit (PV)</b> <b>£ 200-250 billion</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' Benefits to individuals of consumption smoothing (equivalent to around £40 billion); Long run increase in UK incomes due to additional savings (0.2% of GNP in the long run).		

**Key Assumptions/Sensitivities/Risks** The success of these reforms is sensitive to the behaviour of individuals and employers. Key assumptions are: individual participation rates, employer choice of qualifying scheme and employer pension contributions following reform. The outcomes for individuals are also dependant on the returns to investment.

Price Base Year 2007	Time Period Years 43	<b>Net Benefit Range (NPV)</b> <b>£ 0-5 billion resource cost, £40 billion social welfare benefit.</b>	<b>NET BENEFIT (NPV Best estimate)</b> <b>£ 3 billion resource cost, £40 billion social welfare benefit.</b>
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What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	2012			
Which organisation(s) will enforce the policy?	DWP, TPR			
What is the total annual cost of enforcement for these organisations?	£ design dependent			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	N/A			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ negligible			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro £10	Small £10	Medium £50	Large £500
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)
Increase of    £ 3.9 million	Decrease of    £ 0	<b>Net Impact    £ 3.9 million</b>

Key:    Annual costs and benefits: Constant Prices    (Net) Present Value

## Evidence Base (for summary sheets)

1. Impact Assessment for the consultation stage of Workplace Pension Reform (Completing the Picture) Regulations 2010.

### Background

2. In December 2002, the Government established the Pensions Commission, chaired by Lord Turner, to consider both the long term challenges faced by the UK pensions system and whether the existing voluntary approach to savings represented an adequate response. In its Second Report, published in November 2005, the Commission concluded that whilst there was no immediate 'pensions crisis', the existing system had to be reformed to ensure that it would meet several long term challenges. The Commission put forward recommendations for reforming the current system.
3. In the May 2006 White Paper *Security in Retirement: towards a new pension system* (hereafter referred to as the May 2006 White Paper), in light of the Commission's recommendations, the Government set out its proposals for pension reform. The first part of this reform package, a fairer and more generous state pensions system, was delivered through the Pensions Act 2007. The measures now in place will improve people's incomes in retirement and provide a firmer foundation upon which people can make their own plans for their retirement.
4. The second part of the reform package was set out in the December 2006 White Paper *Personal accounts: a new way to save* (hereafter referred to as the December 2006 White Paper) and the Government's response to the subsequent consultation. These reforms are designed to enable and encourage more people to accumulate private pension wealth with the aim of supplementing income received from the State; these measures are set out in the Pensions Act 2008.
5. In order to plan and save for their futures, people need to be confident that the decisions they make today will not be undermined by frequent changes to the pensions system. The Government have therefore built a broad-based consensus amongst political parties, the public, employers and the pensions industry to ensure these reforms can stand the test of time.
6. The Government believes that the private pension reforms introduced through the Pensions Act 2008 are the most effective way to encourage and enable more people to save for their future. In particular, they tackle the barriers identified by the Pensions Commission: making it easier and more attractive to save, extending provision to those currently not covered by the market, strengthening existing provision and simplifying the decision to save<sup>1</sup>.
7. The financial crisis of 2008 may well have adverse impacts on public confidence in financial products and the willingness of employers and employees to participate in these reforms. The Department for Work and Pensions (DWP) believe that over the longer term the rationale for increased pension saving will become even stronger. However the anticipated impact of these reforms will continue to be assessed in the light of developments, including the evolving economic conditions.

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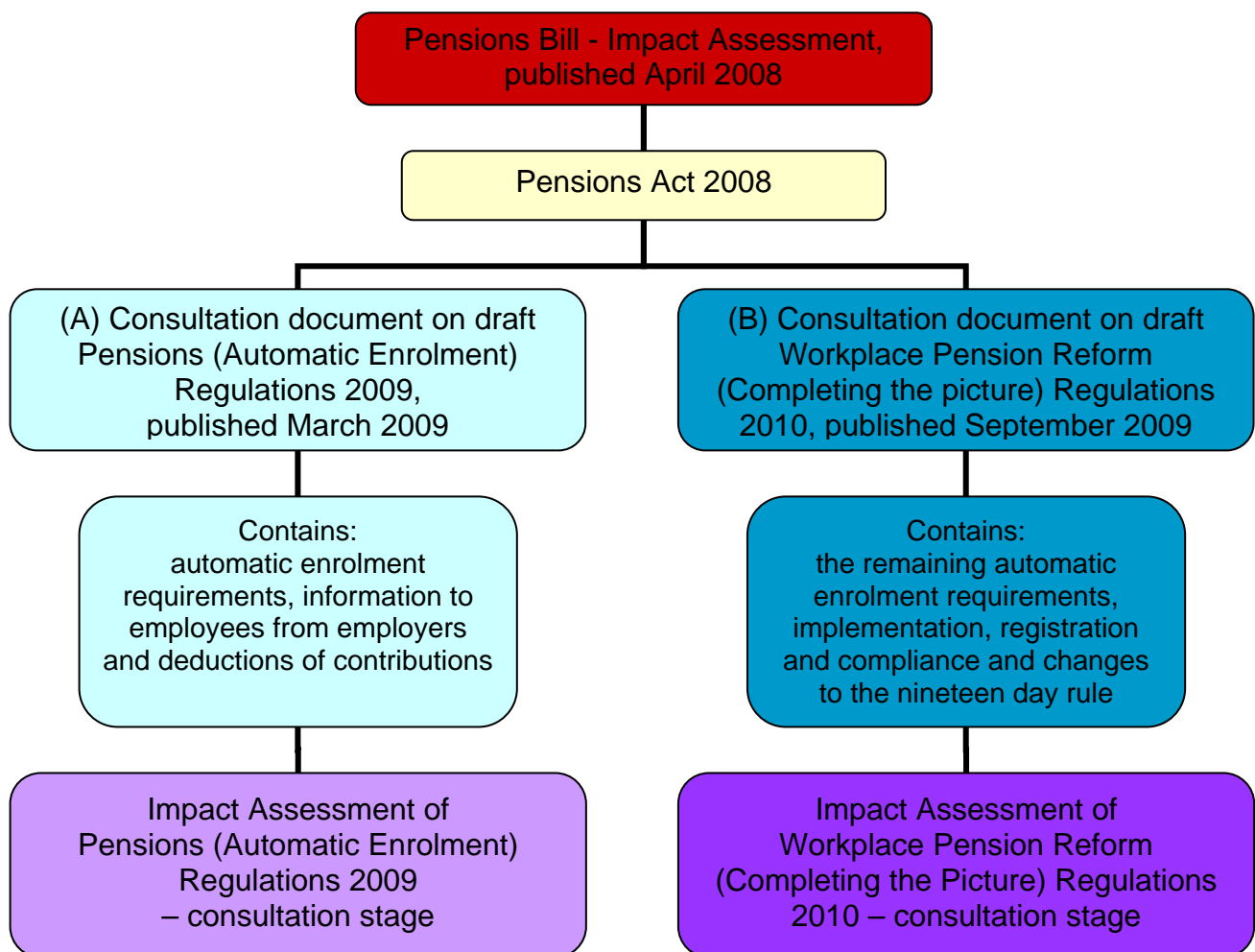
<sup>1</sup> Detailed findings and analysis can be found in the 'Pensions Bill – Impact Assessment' published on 24 April 2008.

8. Independent forecasts collated by HM Treasury in August 2009 show that, on average, experts are expecting Gross Domestic Product growth of 2.4 per cent in 2012 and 2.6 per cent in 2013<sup>2</sup>.

**Overall effect of workplace pension reform**

9. The May 2006 and December 2006 White Papers, consultation, the Pensions Act 2008 and the draft Pensions (Automatic Enrolment) Regulations 2009 have set out to date the requirements for pension reform in 2012.
10. The policies in the consultation document and draft Workplace Pension Reform (Completing the Picture) Regulations 2010, which this Impact Assessment supports, consults on the remaining regulations to be made under the Pensions Act 2008, these include:
- draft Occupational and Personal Pension Scheme (Automatic Enrolment) Regulation 2010;
  - draft Employers' Duties (Implementation) Regulations 2010;
  - draft Employers' Duties (Registration and Compliance) Regulations 2010; and
  - draft Occupational and Personal Pension Scheme (19 Day Rule) (Amendment) Regulations 2010.

**Figure 1.1: Sequence and coverage for the consultation stage of draft regulations**



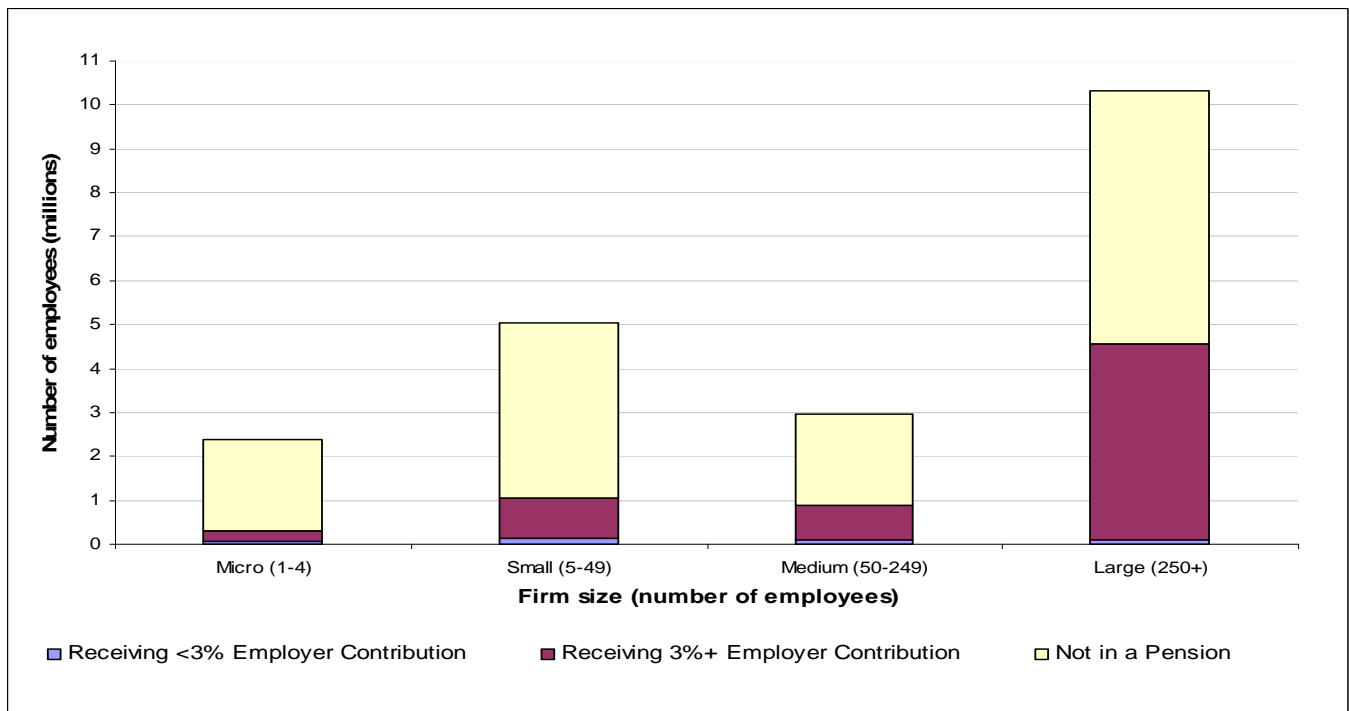
<sup>2</sup> [http://www.hm-treasury.gov.uk/data\\_forecasts\\_index.htm](http://www.hm-treasury.gov.uk/data_forecasts_index.htm)

11. Figure 1.1 sets out the sequence and coverage of the legislation and Impact Assessments for the Pensions Bill 2007 and the draft regulations underpinning the Pensions Act 2008.
12. The Impact Assessment on the consultation stage of the draft Pensions (Automatic Enrolment) Regulations 2009 presented the administrative costs and impact of some of the automatic enrolment processes and does not relate to the entire reforms, see (A) in Figure 1.1. It particularly focused on the impacts of ensuring that all eligible employees were automatically enrolled into a suitable pension scheme and the employers' responsibility in doing this.
13. This document focuses on the impact of the draft Pensions (Completing the Picture) Regulations, see (B) in Figure 1.1. These regulations broadly cover a number of areas around the timing of the duties for employers and providers, some of what they will need to do in order to meet their part of the duties and issues relating to the quality requirements for certain types of schemes. The administrative costs do not cover the entire reforms, but relate only to the regulations covering the remaining automatic enrolment aspects of the reform, implementation, registration and compliance and changes to the nineteen day rule.
14. Further details of the policy decisions in taking forward (B) are set out in the Appendix, and highlights the trade-offs around the operational impact for the delivery authorities in dealing with employers and industry, employer and scheme burdens, and maximising individual saving. A full Impact Assessment will be published by Spring 2010 and will present a complete update of the costs and benefits resulting from the reforms.
15. In general, the duties on employers to automatically enrol jobholders into a qualifying workplace pension arrangement and make minimum contributions will lead to an increase in aggregate employer contribution and administrative costs. The size of these costs will depend on the nature of the employer's current provision and how they intend to fulfil their new duties. DWP estimate<sup>3</sup> that:
  - approximately 750,000 employers in the private sector currently offer no provision;
  - approximately 280,000 employers in the private sector currently offer some provision but make less than a 3 per cent employer contribution; and
  - approximately 270,000 employers in the private sector offer a contribution greater than 3 per cent.
16. Figure 1.2 shows that employees working in large firms are more likely to be in a pension scheme and to be receiving relatively generous employer contributions compared with those working for smaller sized firms.

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<sup>3</sup> DWP modelling of Small and Medium-sized Enterprise Statistics 2007 and Employers' Pension Provision Survey 2007.

**Figure 1.2: Existing pension provision – scheme membership by firm size**



Source: DWP analysis based on the Employers Pension Provision Survey 2007, Small and medium sized Enterprise (SME) statistics 2007 and the Annual Survey of Hours and Earnings 2007.

17. The reforms give rise to large transfers of income across an individual's lifetime, from their working life to their retirement. DWP estimates show that this income transfer should lead to large welfare gains to society<sup>4</sup>. These benefits arise because most people value consumption more highly at times when they can least afford it, such as in retirement.
18. DWP commissioned a programme of independent research, assessing individuals' and employers' attitudes and likely reactions to these reforms, which includes nationally representative surveys of almost 2,400 private sector employers, and over 750 workers who would be eligible for automatic enrolment.
19. Individuals' appear to recognise the benefits of pension saving, and there is broad support for the reforms amongst those eligible for automatic enrolment, with 64 per cent saying they are in favour of automatic enrolment and 91 per cent in favour of a minimum employer contribution<sup>5</sup>.
20. The Government's reform programme places employers at the heart of pension provision. Employers have recognised the long term economic benefits of addressing the issue now, rather than deferring action until the problems become acute. They have also recognised that increased private pension wealth will benefit the economy as a whole.
21. Many employers in the UK already have a pension scheme and are making substantial contributions, and are supporting their employees in saving for retirement. The Government's policies already support this in many ways and the reform package further contributes to this. However, for the reforms to be successful, those employers who do not already provide pensions must also play a role.

<sup>4</sup> DWP Pensions Technical Working Paper, Estimating economic and social welfare impacts of pension reform <http://www.dwp.gov.uk/pensionsreform/pdfs/DWPTechWorkingPaper.pdf>.

<sup>5</sup> Webb C, Pye J, Jeans D, Robey R and Smith P, 2008, Individuals' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey. DWP Research Report 550 and Hall S, Pettigrew N and Harvey P, 2006, Public attitudes to personal accounts: Report of a qualitative study, DWP Research Report No 370.

22. Survey evidence collected in 2007 suggests that overall the majority (58 per cent) of employers across all firm sizes thought the reforms were a good idea, and 70 per cent of all employees worked for these employers. Among those employers currently contributing 3 per cent or more to their employees' pensions, 71 per cent thought the reforms were a good idea<sup>6</sup>.
23. DWP has regularly met representatives of the pensions industry, employers, and consumer groups to explain and consult on the details outlined in the Pensions Act 2008. This is to ensure that key stakeholder views are considered early and, where appropriate, incorporated into the design of the policy as it is developed. It will also help smooth the transition for both individuals and employers when these reforms are implemented from 2012.
24. The views expressed in the 2007 individuals' and employers' attitudes surveys may have reflected the prevailing economic conditions at the time. DWP recognises that under the present economic circumstances employers may be more concerned about the potential impacts of these reforms. The Government will continue to monitor trends in pension provision, the economic context in which these reforms will be introduced and gather evidence on the attitudes of employers, individuals and the pensions industry to the reforms. As 2012 approaches, estimates will continue to be updated in light of new evidence received; this includes an update of the individuals' and employers' attitudes surveys. There will also be new research on how small employers intend to manage these reforms<sup>7</sup>.
25. An assessment of employer costs and benefits arising from the reforms are detailed below.

#### Participation estimates

26. The participation estimates are modelled in four key steps. First, by modelling the current pension landscape in terms of employer provision of pension schemes, and participation in them by employees. Second, by projecting this landscape forward to when the reforms will be implemented. Third, using evidence from research with employers, assumptions are made about whether employers will use existing or new provision (and whether new provision would be the new Personal Accounts scheme), to fulfil their duties to provide a qualifying pension scheme to their workers. Fourth, using evidence from research with eligible individuals, assumptions are made about how many people will opt-out of a scheme after being automatically enrolled by their employer<sup>8</sup>.
27. DWP's working assumptions for participation in workplace pension schemes following reform have changed since those presented in the Pensions Bill - Impact Assessment (published April 2008), and the Impact Assessment of draft Pensions (Automatic Enrolment) Regulations 2009. These changes reflect updated research, data and analysis; more information about how and why estimates have changed can be found in the factsheet: *People benefiting from private pension reform: explanation of participation estimates*<sup>9</sup>, published alongside this Impact Assessment.
28. Based on this evidence, and taking account of the uncertainties around how individuals and employers might react, it is anticipated that 10-11 million people will be eligible for automatic enrolment into a workplace pension scheme. After accounting for people who opt-out we expect this to result in:

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<sup>6</sup> Grant C, Fitzpatrick A, Sinclair P and Donovan JL, 2008, Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey. DWP Research Report No. 546.

<sup>7</sup> To be published in Winter 2009/10.

<sup>8</sup> It is assumed that all employers comply with the regulations, see paragraph 54 for a further explanation.

<sup>9</sup> <http://www.dwp.gov.uk/policy/pensions-reform/factsheets-and-supporting/>

- 5-9 million people newly saving or saving more in all forms of workplace pension scheme;
- 3-4 million people newly saving or saving more in existing forms of workplace pension scheme<sup>10</sup>; and
- 3-6 million people saving in Personal Accounts, including some who were previously saving in existing forms of workplace pension scheme, and some who opt-in.

Note:

- Figures represent different participation scenarios and are not intended to sum.

### Total contribution costs

29. The reforms will require employers to automatically enrol eligible jobholders into qualifying workplace pension saving. The duties will require a minimum 3 per cent contribution from employers. In the development of these reforms DWP has aimed to minimise the burden on employers and will continue to do so as 2012 approaches<sup>11</sup>.
30. In the Pensions Bill - Impact Assessment (published April 2008) and in the Impact Assessment of the draft Pensions (Automatic Enrolment) Regulations 2009, it was estimated that the minimum additional employer contributions would be approximately £2.5 billion once contributions are fully phased in. These costs have since been updated to reflect new participation estimates and updated data on earnings.
31. If employers were to only make the minimum employer contribution of 3 per cent for all eligible workers, the value of additional employer contributions would be £3.1 billion once contributions have been fully phased in. This is within a range of £2.2 billion to £3.5 billion. Table 1.1 below presents these estimates by firm size<sup>12</sup>.

<b>Table 1.1: Additional costs to employers of minimum contributions, once contributions have been full phased in (£ million)</b>			
	Central estimate	Estimated range	Percentage of labour cost
Large firms	1,200	900-1,300	0.5%
Medium firms	600	400-600	0.7%
Small firms	1,000	700-1,100	0.8%
Micro firms	400	300-400	0.8%
<b>Total costs</b>	<b>3,100</b>	<b>2,200-3,500</b>	<b>0.6%</b>

Source: DWP modelling.

Notes:

- Figures are expressed in 2007/08 earnings and prices;
- Figures are rounded to the nearest £100 million;
- Figures may not sum due to rounding.

<sup>10</sup> This is an existing or newly set up workplace pension scheme, other than the Personal Accounts scheme.

<sup>11</sup> The burden on employers is mitigated by limiting the band of earnings for which the duties apply and employers will be able to phase in contributions over time.

<sup>12</sup> Large firms are those with 250 or more employees, medium firms are those with between 50 and 249 employees, small firms are those with between 5 and 49 employees, and micro firms are those with between 1 and 4 employees.

32. These estimates include employer contribution costs for two groups of eligible workers; those that are newly enrolled into workplace pension schemes with a 3 per cent employer contribution; and those that receive an increase in contributions from their employer to 3 per cent where they are currently receiving less than the minimum requirement.
33. These costs can be expressed as a percentage increase in total labour costs<sup>13</sup>. The average increase in labour costs across all industries is 0.6 per cent, which is much lower than the 3 per cent minimum contribution rate. This is because:
  - not all employees are affected by the reforms, and some affected will opt-out; and
  - some labour costs, including earnings below the lower band of £5,035 and above the higher band of £33,540<sup>14</sup>, national insurance contributions and other employee benefits are exempt from pension contributions.
34. The ability for employers to manage the cost of reform will vary across firm specific circumstances. Small and micro employers will face the largest relative increase in labour costs, as these firms are less likely to have existing pension provision.
35. Some employers may also choose to contribute more than the minimum requirement, recognising contributions to a pension scheme as a useful recruitment and retention tool. The Government can see that some employers may wish to offset part of the increased cost of contributions by reducing their current contribution rate. However it is difficult at this stage to estimate the scale of these possible effects. Survey evidence gathered in 2007 suggests that 86 per cent of employers offering more than the minimum requirement of 3 per cent do not plan to reduce their contributions for their existing scheme members once the reforms are implemented, albeit around three in ten said that they might not offer their existing contributions to new employees<sup>15</sup>. Based on the latest assumptions of how employers might fulfil their duties, the current estimate of the total net increase in employer contributions resulting from these reforms is £3.5 billion, within a range of £2.3 billion to £4.4 billion<sup>16</sup>. This represents around 0.7 per cent of total labour costs.
36. If employers choose to make contributions above the minimum level required, it can be assumed that these employers anticipate a benefit from the additional contributions that outweighs the costs of making them. Contribution costs incurred by employers are considered transfers to the individual, and so do not represent a net cost or benefit to the economy as a whole.

### Labour market effects

37. Estimates of the aggregate costs of the duties to employers and the distribution of those costs across industry and firm size have been refined since the Pensions Bill – Impact Assessment (published April 2008). In addition, survey evidence has provided insight into how employers are expected to manage these costs, allowing the Government to further examine the potential impacts on the labour market.
38. DWP analysis suggests that the increase in employer contributions will be spread fairly evenly across all industries<sup>17</sup>. The agriculture, hotels and restaurants and health and social work industries are likely to experience the greatest percentage increase in labour costs

<sup>13</sup> Labour costs refer to wages and salaries paid to employees and social security contributions

<sup>14</sup> The band of qualifying earnings set out in the Pensions Act 2008 to which the duties will apply.

<sup>15</sup> Grant C, Fitzpatrick A, Sinclair P and Donovan JL, 2008, Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey. DWP Research Report No. 546.

<sup>16</sup> DWP modelling.

<sup>17</sup> Industry breakdown: [http://www.statistics.gov.uk/methods\\_quality/SIC/](http://www.statistics.gov.uk/methods_quality/SIC/)

due to relatively low levels of existing pension provision and low wages. The financial intermediation sector in particular is likely to experience lower than average increases in labour costs, as a high proportion of employees will already be members of qualifying pension provision.

39. Employers may use a range of mechanisms to manage the costs of reform. These include absorbing costs into their overheads, increasing prices or offering lower wage increases. Research collected in 2007 indicates that relatively few employers would reduce employment in response to the employer duties, with only 8 per cent of employers, covering 4 per cent of employees, saying this would be their most likely reaction<sup>18</sup>. The proposed staged approach will further help employers to manage the increase in costs using alternative coping mechanisms.
40. DWP estimate that as a result of these reforms, private sector employment could be reduced by 10,000 to 60,000; or 0.1 to 0.3 per cent, although there are reasons to believe that employment impacts could be smaller. The hotels and restaurants and manufacturing sectors may find it more difficult to use alternative mechanisms, and are therefore more likely to see employment impacts than other sectors.
41. The nature of employment effects, if any, will depend, in part, on the general trend in the UK labour market over the implementation period. In an expanding labour market consistent with an economic recovery, the Government expects to see a large part of any impact through slightly fewer vacancies and lower employment growth rather than through higher job losses.
42. Estimates of the potential impacts on the labour market will continue to be reviewed in light of new evidence received and the evolving economic conditions.

#### Benefits of reform

43. The benefits of these regulations arise from overall social welfare benefits of pension reform.
44. The reforms are designed to enable and encourage more people to accumulate private pension income for retirement and should result in consumption smoothing<sup>19</sup>. This in turn should lead to large welfare gains to society; however the benefits from these regulations cannot be separately identified from the overall gains of the reform package, which is equivalent to around £40 billion by 2050.

#### **Effect of Workplace Pension Reform (Completing the Picture) Regulations 2010**

45. The Pensions Act 2008 gives the Secretary of State the power through regulations to require that employers automatically enrol eligible jobholders into qualifying workplace pension saving.
46. Details regarding the rationale and design of the proposals for the draft Workplace Pension Reform (Completing the Picture) Regulations 2010 are set out in the consultation document<sup>20</sup>, which this Impact Assessment supports.

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<sup>18</sup> Grant C, Fitzpatrick A, Sinclair P and Donovan JL, 2008, Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey. DWP Research Report No. 546.

<sup>19</sup> In economics, 'consumption smoothing' means transferring consumption from a period in someone's life where they can afford to consume a lot, to one where they could afford to consume only a little. In the context of pension saving, this means an individual forgoing a fraction of their income during their working life to have more income in retirement. A detailed explanation of consumption smoothing can be found in Chapter 2 of the Pensions Bill – Impact Assessment (published April 2008).

<sup>20</sup> <http://www.dwp.gov.uk/consultations/2009/>

47. The consultation document presents the policies under five key areas: delivering the reforms, maximising individuals' opportunities to save, maximising existing good provision, employer compliance and minimising refunds.
48. The Appendix of this document provides a detailed assessment of the policy options considered which underpin these regulations. In summary the key decisions are:
- there will be a staged approach where in principle employers will become subject to the duties by firm size and over three years;
  - there are transitional arrangements for defined contribution (DC) schemes: contributions start at 1 per cent in October 2012, rising to 2 per cent in October 2015 and 3 per cent from October 2016;
  - there are transitional arrangements for defined benefit (DB) and hybrid schemes which delay contributions from October 2012 to 2015;
  - voluntary opt-in allows individuals who do not fall under the automatic enrolment criteria to take up pension provision;
  - employers will be required to re-enrol eligible jobholders who opted-out or have cancelled their membership into a qualifying scheme every three years;
  - for employers who change their pension schemes there will be a prescribed period of one month for continuity of scheme membership, where employers must provide a replacement qualifying scheme;
  - DC certification will allow employers to use existing good provision to fulfil their duties;
  - DB schemes will need to meet an overall test of scheme quality in order to fulfil the automatic enrolment duties;
  - employers using hybrid schemes will have to satisfy the DB and/or DC quality requirements or some variation of them;
  - all non-UK (EEA and non-EEA<sup>21</sup>) schemes can be qualifying and used for automatic enrolment provided they meet the quality requirements;
  - registration will take place shortly after automatic enrolment, with employers required to tell the Pensions Regulator (TPR) how they have met their new duties;
  - all employers will be required to re-register every three years, in line with the automatic re-enrolment requirements;
  - employers and pension schemes will be required to keep certain records for six years, to help TPR check compliance; and
  - employee contributions deducted during the joining window and opt out period must be passed over to the scheme by the 19<sup>th</sup> day of the second month following the jobholder's automatic enrolment date.

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<sup>21</sup> Schemes based in the European Economic Area (EEA) and those outside the zone (non-EEA).

## Impact on employers

49. The Government's aim in developing these regulations has been to minimise the overall employer burden whilst also ensuring that the needs of individuals are protected by maximising saving for retirement. DWP believes that the provisions set out in these draft regulations provide a coherent and low cost package overall and balance the needs of savers and the burdens on employers and schemes in the most effective way.
50. Most employers expect to use a range of mechanisms for managing any additional costs of pension reform. DWP survey evidence collected in 2007 suggests that employers would be most likely to absorb the increase as part of overhead costs<sup>22</sup> (28 per cent), through increased prices (21 per cent), or through lower wage increases (14 per cent)<sup>23</sup>. Depending on the mechanism chosen by the employer, some of these headline costs could be dampened by either a reduction in corporation tax paid or lower employer National Insurance contributions than would otherwise have been payable. If the contributions were funded out of company profits there would be a reduction in corporation tax paid, and if it were funded through reduced wage growth there would be a reduction in National Insurance contributions from the employer. Employer attitudes will be monitored and DWP will report on this on a regular basis.

### Administrative costs

51. The latest participation estimates have been used to calculate the administrative costs resulting from these regulations, and they are therefore on a different basis to those published in the Pensions Bill - Impact Assessment (published April 2008) and the Impact Assessment of the draft Pensions (Automatic Enrolment) Regulations 2009.
52. To calculate the total administrative costs of the reforms it is not possible to simply sum the costs arising from (A) and (B) in Figure 1.1. This is because each set of figures have been produced at different times, and revised in the light of the best available evidence. Each is underpinned by different assumptions in line with current policy thinking around the reforms at the time.
53. This Impact Assessment presents the latest estimates of the administrative costs to employers of complying with these regulations. These estimates have been updated to reflect the processes set out in the draft regulations which this document supports. In order to estimate the costs, consideration has been given to the activities involved for each employer, who in the firm will carry out each activity, how frequently, how much they get paid and how long it will take<sup>24</sup>.
54. The standard cost model methodology estimates the administrative cost to all employers of complying with the regulations. The fundamental concept and unit of measurement is a normally efficient business. In estimating these costs for Impact Assessment purposes, it is therefore assumed that all employers comply with the regulations. Any additional costs incurred by employers as a result of non-compliance or failure with the duties have not been included<sup>25</sup>.
55. The following tables present the employer administrative costs associated with these regulations.

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<sup>22</sup> This may include profits.

<sup>23</sup> Grant C, Fitzpatrick A, Sinclair P and Donovan JL, 2008, Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey. DWP Research Report No. 546.

<sup>24</sup> The methodology behind administrative cost estimates is detailed in Annex G of the Pensions Bill - Impact Assessment (published April 2008).

<sup>25</sup> Standard cost model: <http://www.berr.gov.uk/files/file44503.pdf>

56. Employers have been divided into two categories in order to estimate the administrative costs; those who use an existing scheme and those who set up a new scheme to meet their duties from 2012. It is estimated that five times as many employers will set up a new scheme as those who will use an existing scheme; the majority of firms are smaller employers who are less likely to have existing provision. The costs of setting up a new scheme are higher than using an existing scheme, as employers using the latter have already incurred many of the fixed costs. Table 1.2 shows total costs to firms using existing schemes and the costs to firms using a new scheme to fulfil their duties.

<b>Table 1.2: Employer administrative cost, by scheme type (£ million)</b>		
	Year 1 cost	Ongoing cost in future years
Employers using an existing scheme	31	4
Employers using a new scheme	202	18
<b>Total costs</b>	<b>234</b>	<b>22</b>

Source: DWP modelling.

Notes:

- Figures are expressed in 2007/08 earnings and prices;
- Figures may not sum due to rounding.

57. Table 1.3 shows a breakdown of employer administrative costs for these regulations by firm size. The overall costs are lower for large firms, even though costs per firm are higher as there are fewer large firms (around 7,000 compared with 856,000 micro firms).

<b>Table 1.3: Employer administrative cost, by firm size (£ million)</b>		
	Year 1 cost	Ongoing cost in future years
Large firms (250 or more employees)	23	4
Medium firms (50-249 employees)	26	1
Small firms (5-49 employees)	76	5
Micro firms (1-4 employees)	109	12
<b>Total costs</b>	<b>234</b>	<b>22</b>

Source: DWP modelling.

Notes:

- Figures are expressed in 2007/08 earnings and prices;
- Figures may not sum due to rounding.

58. Table 1.4 shows that the average administrative cost per employee is estimated to be lowest for larger firms and highest for micro firms. This reflects the fact that small firms are more likely to have to set up a new scheme, and on average have lower participation rates in existing schemes, and so will need to enrol a larger proportion of their workforce into a pension scheme. Larger firms are also able to spread the fixed costs associated with these regulations across a greater number of employees, as well as benefiting from economies of scale.

**Table 1.4: Average administrative cost per employee, by firm size**

	Number of employees	Cost in Year 1 (£)	Ongoing cost in future years (£)
Large firms	4,379,000	5	1
Medium firms	1,784,000	15	1
Small firms	3,257,000	25	2
Micro firms	1,518,000	70	10
<b>All firms</b>	<b>10,939,000*</b>	<b>20<sup>+</sup></b>	<b>2<sup>+</sup></b>

\* total number of employees; + average administrative cost.

Source: DWP modelling.

Notes:

- Figures are expressed in 2007/08 earnings and prices;
- Figures less than £100 are rounded to the nearest £10, £5, or £1 as appropriate;
- Figures may not sum due to rounding.

59. The estimated costs of these regulations appear to affect small and micro firms the most (Table 1.3). It appears this way because there are so many more small and micro firms compared with large and medium employers. Small firms have a lower number of employees over which to spread the fixed costs of a pension scheme, and are less likely to have existing pension arrangements in place. Table 1.5 shows the number of firms of each size and an average cost per firm of these regulations. This demonstrates that the average cost per firm is greatest for largest firms and lowest for micro firms. These per firm costs are very dependent on the number of employees, and by definition large employers have at least two hundred and fifty employees while micro employers have fewer than five employees.

**Table 1.5: Average administrative cost per firm, by firm size**

	Number of firms	Cost in Year 1 (£)	Ongoing cost in future years (£)
Large firms	7,000	3,300	500
Medium firms	30,000	900	50
Small firms	400,000	200	10
Micro firms	856,000	100	10
<b>All firms</b>	<b>1,293,000*</b>	<b>200<sup>+</sup></b>	<b>20<sup>+</sup></b>

\* total number of firms; + average administrative cost.

Source: DWP modelling.

Note:

- Figures are expressed in 2007/08 earnings and prices;
- Figures are rounded to the nearest £100, where less than £100 figures have been rounded to the nearest £10;
- Figures may not sum due to rounding.

60. The ongoing annual administrative burden of these regulations is estimated to be £3.9 million. The administrative burden is a subset of the administrative costs, and only includes those parts of the process which impose an information obligation on business. An

information obligation is a regulation that requires a business to provide and submit information to government or to third parties such as employees and pension schemes. Some of the draft Workplace Pension Reform (Completing the picture) Regulations 2010, in particular those related to record keeping, relate to processes that were included in the Pensions (Automatic Enrolment) Regulations 2009. The estimates of the total administrative burden arising out of the Pensions Act 2008 and related regulations will be reviewed and updated by Spring 2010.

### Impact of implementation

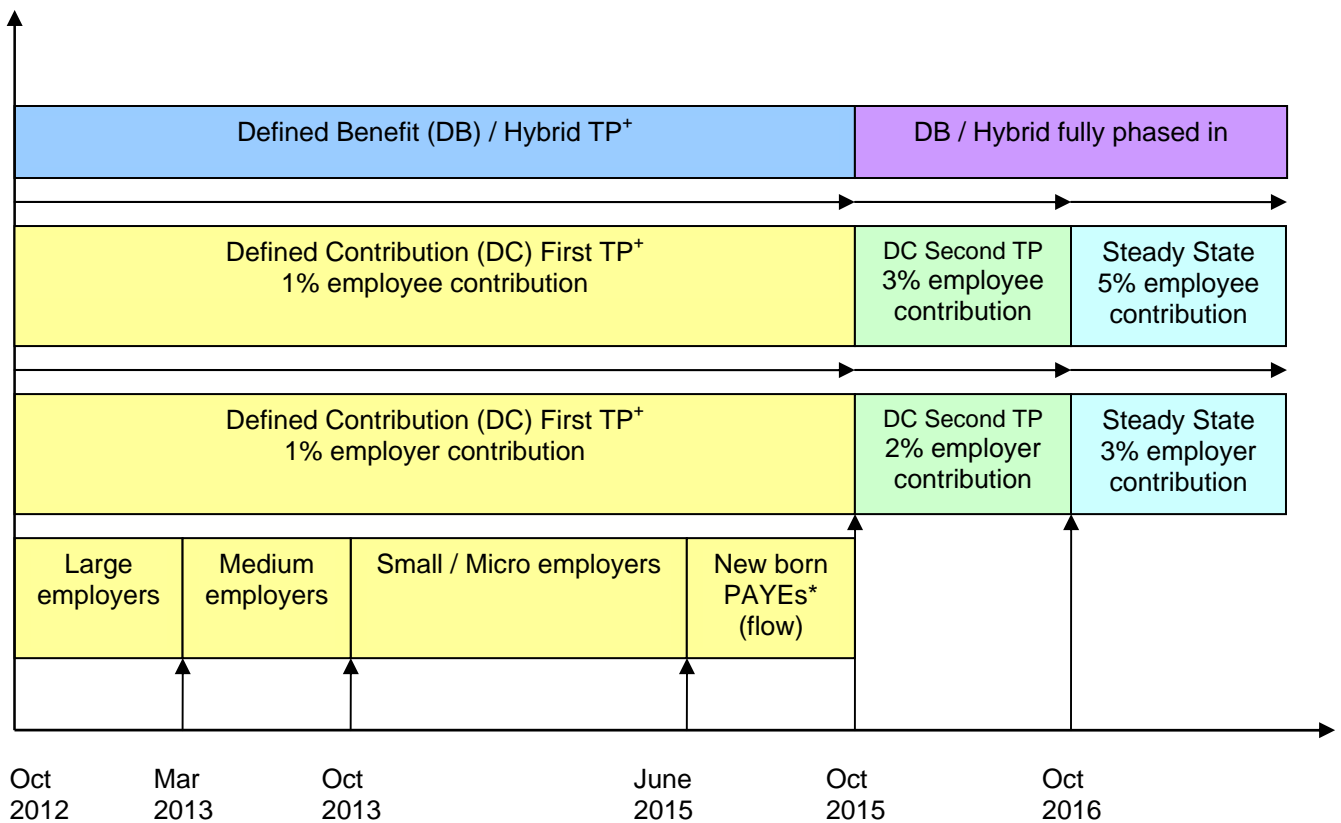
61. The employer duties set out in the Pensions Act 2008 are planned to come into force in October 2012. The principles of the proposed implementation approach will be that employers are staged from largest to smallest over three years from October 2012 to October 2015. This strikes the right balance between getting people into saving as soon as possible, and minimising operational risks associated with reform by providing a manageable level of automatic enrolment activity. This approach also provides both delivery authorities the opportunity to adjust systems and processes based on experience from early stages to help and support smaller firms who are staged in later.
62. The exact detail of the staged approach is currently under review but is considered the best design in order to implement the reform effectively. Data shows that pension provision is highest amongst large employers (99 per cent with provision) and lowest amongst smaller employers (26 per cent with provision)<sup>26</sup> and so large firms will be less affected by the reforms.
63. A longer staged approach may complicate the communications strategy and therefore may impact the effectiveness of the TPR's compliance regime. But it is important that firms in earlier stages know that contributions are expected from their competitors. For employers who do not comply, there will be a proportionate, risk-based compliance regime in place. This regime will focus on supporting and enabling employers to comply, but also allows necessary enforcement action to be taken.
64. In addition to the staged approach, employers will be able to phase in their contributions under the transitional arrangements described in the Pensions Act 2008. For DC schemes this simply means that employers will not pay their full contribution immediately; instead, there will be two increases in contribution from 1 per cent to 2 per cent, before moving to 3 per cent in steady state.
65. There are also transitional arrangements for those employers using DB and hybrid schemes<sup>27</sup>. Employers offering such schemes will be able to delay automatic enrolment until October 2015 under the current proposal for those jobholders who have previously chosen to opt-out.
66. Figure 1.3 shows an illustrative example of the staged approach and the transitional arrangements for DB and DC schemes as set out in these regulations.

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<sup>26</sup> Employers Pension Provision Survey 2007.

<sup>27</sup> A hybrid scheme has been defined as an occupational pension scheme that is not purely DB or purely DC.

**Figure 1.3: Proposed staged approach and DB and DC transitional arrangements**



\* Pay As You Earn; + Transitional period.

Source: DWP modelling.

<b>Table 1.6: Impact of staged implementation and DC transitional arrangements on contribution costs, by firm size (£ millions)</b>						
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Large firms (250 or more employees)	130	400	400	600	1,000	1,200
Medium firms (50-249 employees)	0	150	190	280	470	560
Small and Micro firms (1-49 employees)	0	20	140	630	1,130	1,350
<b>Total costs</b>	<b>130</b>	<b>560</b>	<b>720</b>	<b>1,500</b>	<b>2,590</b>	<b>3,100</b>

Source: DWP modelling.

Notes:

- Figures are expressed in 2007/08 earnings and prices;
- Figures are rounded to the nearest £10 million;
- Figures may not sum due to rounding.

67. Using the principles outlined above Table 1.6 illustrates the combined impact of a staged approach and transitional arrangements on the contribution costs employers face under the duties. The latest estimate of minimum employer contributions is £3.1 billion once the reforms have been fully phased in. Employers will have to pay less in contributions during the implementation approach than they will in steady state. Small and micro firms in particular benefit from this approach as they are brought under the duties later on in the

process with lower contribution costs over the implementation period; compared with £1.3 billion annual contribution costs from steady state.

68. If it were operationally viable to introduce the reforms all at once, all eligible individuals would be automatically enrolled in to pension saving in October 2012 under the current proposal. Although the reforms increase overall pension saving, a staged approach to these reforms (which is operationally viable) delays individuals' benefiting from total pension saving of at least 8 per cent of qualifying earnings until October 2016 under the current proposal. This approach will particularly impact on the pension fund size of jobholders, working for firms who are in the last stage, whose pension savings will not benefit from employer contributions at 1 per cent and employee contributions at 1 per cent until they become subject to the duties. In the worst case scenario it is anticipated that an individual in the last stage (planned as September 2015) could have a pension fund 3 per cent<sup>28</sup> lower than if the same individual had been in the first stage and therefore become subject to the duties in October 2012 under the current proposal. Although employers are able to start making contributions, should they wish to do so, ahead of the date which they are due to be staged in.
69. A number of alternative options were assessed for the staged approach and are considered further in the Appendix. A summary of the disregarded options from Table A are presented below.

*Even distribution of firms:*

70. Table 1.7 shows the distribution of contribution costs for an even distribution of firms at each stage; such as by randomly selecting employers, selecting by geographical location or by industry type<sup>29</sup>.

<b>Table 1.7: Impact of even distribution of firms and DC transitional arrangements on contribution costs, by firm size (£ millions)</b>						
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Large firms (250 or more employees)	20	140	260	580	1,000	1,200
Medium firms (50-249 employees)	10	60	120	270	460	560
Small and Micro firms (1-49 employees)	20	150	300	660	1,120	1,350
<b>Total costs</b>	<b>50</b>	<b>350</b>	<b>680</b>	<b>1,510</b>	<b>2,590</b>	<b>3,100</b>

Source: DWP modelling.

Notes:

- Figures are expressed in 2007/08 earnings and prices;
- Figures are rounded to the nearest £10 million;
- Figures may not sum due to rounding.

71. These options were considered and disregarded as they create significant risk to TPR and the Personal Accounts scheme in terms of the operational impact. An uneven distribution of employees would be more challenging to manage than a staged approach by firm size.

<sup>28</sup> DWP modelling.

<sup>29</sup> It is assumed that a geographical or industry breakdown would give the same distribution of employers and employees as a random selection.

72. There would also be a risk to the effectiveness of TPR's compliance regime due to the difficulties around defining for example a geographical location or industry type, creating a lack of clarity around the delivery of the reforms.
73. In addition, there would be a burden on employers from being staged in at different times and a disproportionate burden on smaller firms who become subject to the duties earlier than larger sized firms.
74. Furthermore, there is a potential equality impact where certain groups of individuals are over represented and become subject to the duties before others.

*By firm size (starting with smallest first):*

75. Table 1.8 shows the distribution of contribution costs for a staged approach by firm size, starting with smallest firms first. This option was considered and rejected as it brings forward an already disproportionate burden on smaller firms, who are least likely to have existing provision, and so more likely to be affected by reform than larger firms.
76. It would also create a significant risk to TPR and the Personal Accounts scheme due to uncertainty around the circumstances of small firms and their likely reactions as they are more likely to need operational help to adjust to the reforms. Further this approach would not allow systems to be tested and adjusted before high numbers of small firms become subject to the duties.

**Table 1.8: Impact of staged approach by firm size - starting with smallest firms first and DC transitional arrangements on contribution costs, by firm size (£ millions)**

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Large firms (250 or more employees)	0	0	50	600	1,000	1,200
Medium firms (50-249 employees)	0	0	100	280	460	560
Small and Micro firms (1-49 employees)	10	130	280	630	1,120	1,350
<b>Total costs</b>	<b>10</b>	<b>130</b>	<b>440</b>	<b>1,500</b>	<b>2,590</b>	<b>3,100</b>

Source: DWP modelling.

Notes:

- Figures are expressed in 2007/08 earnings and prices;
- Figures are rounded to the nearest £10 million;
- Figures may not sum due to rounding.

### Minimising employer burden

77. These regulations have been designed in such a way to minimise the impact on employers.
78. The employer duties set out in the Pensions Act 2008 are currently proposed to come into force in October 2012. Employers will be staged in by size, in principle starting with large firms first, thus allowing small and micro firms more time to adjust to the administrative processes and costs of reform. Contributions for DC schemes will be phased in over two transitional periods in order to help employers gradually adjust to the costs of pension saving.

79. These regulations also allow employers to maintain their existing provision. The certification process was introduced to simplify the payroll processes for some employers, in order to help employers meet the qualifying requirements under the duties and minimise administrative costs. Employers using DB and hybrid schemes will be able to delay contributions for up to three years to allow a reasonable period of time to adjust to the costs of reform.
80. Annual reconciliation enables all employers to smooth the cost of contributions over the year. Employers are able to use a twelve month exemption period for some employees who have recently opted-out or cancelled their membership, thus reducing administrative cost on their re-enrolment date.
81. An amendment to the nineteen day rule for the duration of the joining window and opt-out period will allow all employers to delay paying over employee contributions to the scheme. This will minimise the need for refunds of employee contributions from scheme to employer. It will also allow the employer to refund jobholders who opt-out of pension saving from existing funds.

### Impact on small firms

82. Most of the 1.3 million private sector enterprises in the UK are small and almost all new firms created each year are small employers. Small firms, with less than 50 employees, represent 97 per cent of private sector enterprises and 37 per cent of private sector jobs<sup>30</sup>.
83. Small firms are likely to have a number of structural differences compared with their larger counterparts. Notably, these are:
  - a business infrastructure that operates on a relatively small scale, leading to limited internal flexibility which could make it costly to adapt to new regulatory requirements;
  - limited resources which make it difficult for them to respond to government consultations; and
  - for the same reasons, proportionately very few are members of employer associations.
84. DWP's 2007 survey of employers found that around 60 per cent of micro employers thought the reforms were a good idea and 24 per cent thought they were a bad idea. The remaining 16 per cent did not know or did not have enough information to make a decision. Similarly 50 per cent of small employers thought the reforms were a good idea and 36 per cent thought they were a bad idea<sup>31</sup>.
85. The views expressed in the 2007 survey may have reflected the prevailing economic conditions at the time, and the Government recognises that under the present economic conditions employers may be more concerned about the potential impacts of reforms. Recent qualitative research that DWP has undertaken with small employers<sup>32</sup> showed a limited awareness of the reforms, as might be expected at this early stage of the reform process. There was a general lack of trust in pensions and also concerns about the cost implications of the reforms which is to be expected in the current economic climate, particularly among firms currently without pension provision. Small employers were

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<sup>30</sup> Small and Medium-Sized Enterprise Statistics 2007.

<sup>31</sup> Grant C, Fitzpatrick A, Sinclair P and Donovan JL, 2008, Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey. DWP Research Report No. 546.

<sup>32</sup> Research undertaken for DWP by BMRB, forthcoming in 2009, Understanding small employers' likely responses to the workplace pension reforms.

primarily focused on maintaining their business and so were concerned about the potential burden expanding pension provision will impose in future.

86. When asked how they would manage contribution costs, small employers reinforced the messages from the 2007 survey, in that the mechanisms would be to absorb costs through profits, prices and wage bills. However, they felt that the economic climate would have a significant impact on which mechanism they would be able to choose. Under positive economic conditions, as recorded in 2007, they felt confident they would be able to absorb additional costs through profits and prices. However, in a time of continued economic uncertainty they felt they were more likely to absorb costs through reductions in their wage bill, but may also result in a reduction in headcount or hours worked.
87. This research also found that small employers had difficulty estimating the time and cost of the administrative processes that would be undertaken as a result of these reforms. For many small firms payroll and accounting systems are often outsourced and so it would be difficult to determine the exact cost of a system update to take account of adjustments. Those firms who dealt with their payroll in-house generally worked with computerised systems and were therefore already reliant on the software provider for automatic updates, and so felt that the administrative elements of the reforms could be dealt with relatively easily through software changes. In addition, small employers had generally found previous legislative changes (such as National Minimum Wage and maternity legislation) relatively easy to manage, in terms of both costs and administrative change, and that the support and information available from the Government on these changes had been helpful.
88. The Government recognises the challenges faced by small firms and is keen to ensure that such firms are not disadvantaged by the reforms and are able to fulfil their duties in the same way as larger firms. As such, the design of implementation smoothes the transition for all employers to fulfil their duties with at least the minimum level of pension contributions (Figure 1.3). This will particularly benefit small firms who become subject to the duties at least one year later than large firms under the current proposal.
89. The aim of this approach is to support small firms by allowing them to gradually adjust to the duties; the delivery authorities systems will be in place and there will be guidance about setting up a qualifying scheme. This is traded-off with a shorter first transitional phase at 1 per cent contributions before all employers move to 2 per cent, which will impact some individuals' total pension funds.

### **Equality impact of pension reform**

90. This document provides further detail on the reforms set out in the Pensions Bill – Impact Assessment (published April 2008); equality assessments have been carried out to meet the requirements of the:
  - gender equality duty<sup>33</sup>;
  - race equality duty<sup>34</sup>; and
  - disability equality duty<sup>35</sup>.

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<sup>33</sup> A detailed gender assessment can be found in Annex C of the Pensions Bill – Impact Assessment (published April 2008).

<sup>34</sup> A detailed race assessment can be found in Annex D of the Pensions Bill – Impact Assessment (published April 2008).

<sup>35</sup> A detailed disability assessment can be found in Annex E of the Pensions Bill – Impact Assessment (published April 2008).

91. The equality assessments previously carried out and published are summarised below.
92. The reforms to the state pension system, implemented by the Pensions Act 2007, will significantly contribute to making future pensioners, and in particular women, better off. Automatic enrolment set out in the Pensions Act 2008 will be particularly useful in helping overcome decision-making inertia and lack of confidence with financial decisions, which are more significant barriers for women in saving in a private pension scheme than they are for men. If women save earlier as a result of these reforms they will be in a better position to accumulate private pension wealth with the aim of supplementing income received from the State.
93. These reforms will have a larger positive impact on black and minority ethnic (BME) groups than on individuals' from white ethnic backgrounds. This reflects the fact that BME groups are least likely to be saving for a pension. Also both white and BME women are less likely to earn more than the upper threshold, and more likely to earn less than the lower threshold of qualifying earnings and so will benefit from the reforms.
94. There are major variations within the group of disabled people, depending on their characteristics and type and severity of impairment. In addition, the data sources available use different definitions of disability. Overall it is expected that these reforms will have a similar impact on disabled people in employment as on those in employment who are not disabled.
95. The equality assessments will be updated as the reforms are progressed.

### **Competition impact of pension reform**

96. The previous competition assessment undertaken for the Pensions Bill - Impact Assessment (published April 2008) explains the rationale and broader competition impacts of pension reform on the pension, product and labour markets and so is still valid<sup>36</sup>. This assessment focuses on the competition impact in relation to these regulations<sup>37</sup>.
97. The introduction of pension reforms overall will lead to an expansion of the existing market, with an estimated 5-9 million more workers newly saving or saving more in workplace pension schemes. The expansion of pension provision is likely to make it more profitable to provide pensions to all firms as the participation and contribution rates within these firms are likely to increase. Employers will be able to choose between different forms of provision to fulfil their duties. This will lead to an expansion of members in existing schemes and more generally in the market, as more individuals' will be saving for retirement under the duties.
98. Employers will be encouraged to utilise existing good provision; they will also be able to set up a new scheme or use a combination of schemes to meet the requirements set out in the Pensions Act 2008. The use of existing provision will help employers adjust to the costs of reform. It will also benefit the pensions industry as their existing products, often calculated in pensionable pay terms, will not need to be re-designed to meet the duties defined in qualifying earnings terms.
99. Under the current proposals, employers will be staged in by firm size starting with the largest employers first. Contributions will also be gradually introduced so that employers are able to adjust to the additional contribution costs of pension saving.

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<sup>36</sup> A detailed competition assessment can be found in Annex B of the Pensions Bill – Impact Assessment (published April 2008).

<sup>37</sup> A detailed assessment of the policy options considered which underpin these regulations can be found in the Appendix of this document.

100. Employers will be able to use a range of mechanisms to manage the costs of reform, including absorbing costs through overheads, increased prices or lower wage increases. The choices an employer makes may affect their competitiveness. Managing the costs in this way should help minimise the impact of additional administrative and contribution costs, particularly on the labour market.
101. The minimum employer contribution should not reduce the level of competition between firms in the labour market. In fact some employers may also choose to contribute more than the minimum as part of their remuneration package, recognising that it could be a useful recruitment and retention tool. However, the Government can see that some employers may wish to offset part of the increased cost of contributions by reducing their current contribution rate.
102. The staged approach and transitional arrangements for DC schemes are likely to have a short term impact on competition, both in the pensions market and the wider economy as a whole. This is because some employers will become subject to the duties earlier than other similar sized firms. However, in the long run once the reforms are fully phased in, any short term distortions to competition should level out. The impact of implementation is explained in more detail below.

### Impact of implementation

103. These regulations describe the principles of the staged approach and transitional arrangements under which the reforms will be introduced; the exact detail of the design is currently under review. The staged approach will allow the pension industry and employers time to prepare their systems and processes for the expansion in pension provision. It is estimated that an additional 5-9 million people will be saving or saving more in existing pension schemes including Personal Accounts.
104. The expansion of pension provision is likely to make it more profitable to provide pensions to all firms. However, it is recognised that the implementation approach, in particular gradually increasing contributions, will limit short term profitability for the pension industry. This is because returns to a scheme are lower than if employers were required to make 3 per cent contributions from their automatic enrolment date<sup>38</sup>.
105. The transitional arrangements could have a short term competition impact on employers. All employers pay 1 per cent contributions during the first transitional period. Gradually introducing contributions in this way limits the potential impact that the implementation profile can have on competition between employers. If employers moved to a different level of contributions before all employers had been staged in, the difference in contribution costs between employers staged later compared with those staged in earlier would increase.
106. This means that employers who choose to meet the costs of additional employee contributions through gradual price increases, can do so smoothly, reducing the competition impact on the market in which they operate. The level of competition in each section of the market will determine the degree to which employers are able to do this. This will be influenced by the change in costs for other employers in the same market.
107. Large firms may be disadvantaged by the staged approach, as they bear the ongoing administrative and contribution costs of reform sooner than a small firm who will be staged in last. It is difficult to quantify how different size firms may compete with each other during implementation. However, employees working in large firms are more likely to already be

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<sup>38</sup> The industry impacts will be detailed in a full Impact Assessment to be published by Spring 2010, and will cover all aspects of the reform including automatic enrolment, scheme choice and implementation.

in a pension scheme and to be receiving relatively generous employer contributions compared to those working for smaller sized firms (Figure 1.2). Large firms will also benefit from the transitional arrangements, and will be able to manage the additional costs of reform and resulting short term distortions better than smaller firms.

**Table 1.9: Maximum difference between automatic enrolment date of similar sized firms (months)**

	All firms on the same date	Three years – CCD* staged approach	Three years - non CCD* staged approach
Large firms (250 or more employees)	0	0	4
Medium firms (50-249 employees)	0	0	4
Small and Micro firms (1-49 employees)	0	18	31

\* Common Commencement Date.

Source: DWP modelling.

108. A staged approach means that employers become subject to the duties at different points in time and therefore do not face the administrative costs of reform at the same time. Employers are likely to adopt a range of mechanisms to manage the administrative costs of reform and this, depending on the mechanism they choose, could have a competition impact. Table 1.9 shows for example that there is a four month difference between when the first large employer is brought into the duties and the last similar sized firm. There is a potential competition impact if these large firms are in direct competition with each other.

109. Within the staged approach, there could be one or two test groups of randomly selected small and micro employers who will become subject to the duties earlier than other stages of similar size firms. These early groups will give the delivery authorities time to change their systems and processes based on what they learn, benefiting later stages of small and micro employers. It is difficult to quantify the extent to which firms within these test groups may compete with other small and micro firms; there may be a short term competition impact as a result of having to provide contributions earlier than other similar sized firms.

**Table 2.0: Maximum difference in average employer contribution cost of similar sized firms (£)**

	All firms on the same date	Three years – CCD* staged approach (percentage of labour costs)	Three years - non CCD* staged approach (percentage of labour costs)
Large firms (250 or more employees)	0	0	16,600 (0.1%)
Medium firms (50-249 employees)	0	0	2,100 (0.2%)
Small and Micro firms (1-49 employees)	0	500 (0.3%)	900 (0.3%)

\* Common Commencement Date.

Source: DWP modelling.

Notes:

- Average percentage increase in labour costs, calculated over the periods shown in Table 1.9;
- Figures are expressed in 2007/08 earnings and prices;
- Figures are rounded to the nearest £100 million.

110. Table 2.0 shows the difference in contribution costs per firm by size of firm as a result of the staged approach currently proposed. An average large firm staged in four months before another average large firm faces £16,600 additional contribution costs, this represents only 0.1 per cent of total labour costs. This difference in contribution costs is lower for small and micro firms as by definition they have fewer employees to make contributions for, but represents a slightly higher proportion of total labour costs at 0.3 per cent as these firms are less likely to have existing provision.

## Summary

111. The Pensions Act 2008 gives the Secretary of State the power through regulations to require that employers automatically enrol eligible jobholders into qualifying workplace pension saving. The remaining detailed proposals are set out in the consultation document and draft Pensions (Completing the Picture) Regulations 2010 which this Impact Assessment supports. These aim to minimise the burden placed on employers, individuals and the pensions industry.
112. DWP's latest estimates of the impact of these regulations that underpin the Pensions Act 2008 have been updated to reflect policy developments since the Pensions Bill – Impact Assessment (published April 2008).
113. The financial crisis of 2008 may well have adverse impacts on public confidence in financial products and the willingness of employers and employees to participate in these reforms. DWP believes that over the longer term the rationale for increased pension saving will become even stronger. However the anticipated impact of these reforms will continue to be assessed in the light of developments including the evolving economic conditions.
114. The reforms give rise to large transfers of income from an individual's working life to their retirement. The majority of the impact is therefore a transfer of income across an individual's lifetime. Estimates show that this income transfer should lead to large welfare gains to society.
115. In general these regulations set out the remaining automatic enrolment requirements, implementation, registration and compliance and nineteen day rule proposals under the employer duties and will lead to an increase in aggregate administrative and contribution costs.
116. Most employers expect to use a range of mechanisms to manage any additional costs of pension reform. In order to help employers with this process, these regulations have been designed to minimise the risks associated with pension reform for the delivery authorities, employers, individuals and the pensions industry where possible.
117. This document presents the latest participation estimates and changes to the contribution costs resulting from these reforms. The value of additional employer contributions would be £3.1 billion once contributions have been fully phased in, for employers making the minimum employer contribution of 3 per cent for all eligible workers. The latest estimates of the administrative costs resulting from these specific regulations are £234 million in the first year and £22 million each year thereafter for all firms. To estimate the total administrative costs arising out of the Pensions Act 2008 the costs of these regulations and the previous automatic enrolment regulations will be reviewed and updated by Spring 2010.
118. The latest estimates show that the costs resulting from these regulations vary according to firm size. The Government recognises the challenges faced by small firms in particular, as such reforms are not designed to disadvantage these firms compared to their larger counterparts, who will be less affected by the reforms (99 per cent with existing provision).

119. These regulations have been designed to minimise the impact on employers despite the fundamental nature of the reforms. A staged approach by employer size allows small and micro firms more time to adjust to the administrative processes and costs of reform until October 2013 compared to large firms who become subject to the duties from October 2012 under the current proposal. In addition employers will be able to gradually introduce their contributions under the transitional arrangements for DC schemes described in the Pensions Act 2008.
120. There are also policies designed to maintain existing good provision in order to minimise employer burden. The certification process was introduced to simplify the payroll processes for some employers, in order to help employers meet the qualifying requirements under the duties and minimise administrative costs. Employers using DB and hybrid schemes will be able to defer contributions for up to three years to help smooth costs over time under the transitional arrangements set out in these regulations.
121. Annual reconciliation enables all employers to smooth the cost of contributions over the year. Employers are also able to use an exemption period for some employees at their re-enrolment date which will reduce burdens.
122. The change to the nineteen day rule will, in most cases, relieve all employers of the administrative cost of receiving refunds of employee contributions from pension schemes where jobholders opt-out and allow them to refund jobholders from existing funds.
123. The Government recognises that employers will be affected by the regulations differently. DWP will continue to monitor trends in pension provision on a regular basis, the economic context in which these reforms will be introduced, and gather evidence on the attitudes of employers, individuals and the pensions industry to the reforms.
124. The reforms will have a positive impact on equality. In particular automatic enrolment will help overcome decision-making inertia and lack of confidence with financial decisions, which appear to be more common amongst women. Also, the reforms are likely to have a larger positive impact on black and minority ethnic groups than on individuals from white ethnic backgrounds; highlighting that there is a race issue as well as a gender issue. Overall the reforms are expected to have a similar impact on disabled people in employment as on those in employment who are not disabled.
125. The expansion of pension provision is likely to make it more profitable to provide pensions to all firms as the participation and contribution rates within these firms are likely to increase. The staged approach creates a short term competition impact. Though it is unclear how different sized firms in the same market may compete with each other during implementation, in the long run these distortions should level out.
126. A full Impact Assessment will be published by Spring 2010. The document will present a complete update of the costs and benefits resulting from the draft regulations on automatic enrolment, implementation, registration and compliance and the nineteen day rule.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	No	No
Rural Proofing	No	No

## Appendix

1. This Impact Assessment sets out why the Government is proposing to intervene, the extent of these regulations and the expected impact. The design of the reforms have taken place within the context of best balancing the Government's objectives to minimise employer burden, whilst protecting individuals' pension provision and minimising operational risks to delivery of the reforms.
2. Further detail around the policy rationale is set out in the consultation document<sup>1</sup> which presents the policies under five key areas: delivering the reforms, maximising individuals' opportunities to save, maximising existing good provision, employer compliance and minimising refunds.
3. This document provides an appraisal of the options considered assessed against three criteria, which underpin these regulations:
  - operational impact<sup>2</sup>;
  - minimising employer/scheme burden; and
  - maximising individuals' saving.

### Delivering the reforms

4. DWP has worked closely with key stakeholders including the delivery authorities to design processes that will best manage the operational demands that these regulations impose. Details of the rationale for the implementation process are explained below.

#### *Staged approach:*

5. The employer duties set out in the Pensions Act 2008 are proposed to come into force in October 2012. In line with the Office for Government Commerce, Major Project Review Group<sup>3</sup> and HM Treasury guidance, reforms will be introduced using a staged approach.
6. A staged approach means that employers will be required to fulfil their duties at different points in time. The options considered for the introduction of employer duties are shown in Table A.

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<sup>1</sup> <http://www.dwp.gov.uk/consultations/2009/>

<sup>2</sup> Risks to the delivery authorities and pension schemes in their ability to deliver the requirements set out in these regulations.

<sup>3</sup> [http://www.ogc.gov.uk/programmes\\_projects\\_major\\_projects\\_review\\_group.asp](http://www.ogc.gov.uk/programmes_projects_major_projects_review_group.asp)

**Table A: Options for the introduction of employer duties**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Stage employers by random selection	<ul style="list-style-type: none"> <li>• Significant risk to TPR and the Personal Accounts scheme as it would be challenging to manage variable numbers of employees working for randomly selected employers.</li> <li>• Risk to the effectiveness of TPR's compliance regime as a lack of clarity around communications of when employers will become subject to the duties.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential burden on employers as there would be uncertainty around when they become subject to the duties.</li> <li>• Burden on employers as some firms of the same size become subject to the duties at different times which raises fairness and competition issues.</li> <li>• Potential disproportionate burden on small firms who could become subject to the duties earlier than larger sized firms.</li> </ul>	<ul style="list-style-type: none"> <li>• Risk to individual saving due to low employer compliance.</li> <li>• Risk to individual saving due to lack of clarity around communications of when employers will become subject to the duties.</li> </ul>
Stage employers by geographical location	<ul style="list-style-type: none"> <li>• Significant risk to TPR and the Personal Accounts scheme as the distribution of employers across geographical locations is not evenly spread and would be challenging to manage.</li> <li>• Risk to the effectiveness of TPR's compliance regime as a lack of clarity on location for some employers whose head office is in a different location to that of their employees.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential burden on employers as multi-site firms or firms in the same industry may become subject to the duties at different times.</li> <li>• Potential disproportionate burden on small firms who could become subject to the duties earlier than larger sized firms.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential equality impact in areas over represented by certain groups (than the UK average) who become subject to the duties before others.</li> </ul>
Stage employers by industry	<ul style="list-style-type: none"> <li>• Significant risk to TPR and the Personal Accounts scheme as the distribution of employers across all industries is not evenly spread and would be challenging to manage.</li> <li>• Difficult to define industry type for</li> </ul>	<ul style="list-style-type: none"> <li>• Potential burden on employers, as there would be a disproportionate impact on smaller firms competing with large firms in the same industry.</li> <li>• Potential disproportionate burden</li> </ul>	<ul style="list-style-type: none"> <li>• Potential equality impact in industries over represented by certain groups (than the UK average) who become subject to the duties before others.</li> </ul>

**Table A: Options for the introduction of employer duties**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
	some employers whose industry covers more than one sector.	on small firms who could become subject to the duties earlier than larger sized firms.	
Stage employers by size (largest firms first)	<ul style="list-style-type: none"> <li>• Low risk to TPR and the Personal Accounts scheme as provides a clear and manageable number of employers and employees at each stage.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimal burden on employers as large firms are more likely to have existing pension provision.</li> <li>• Minimal burden on small employers as allows more time to adjust to reforms and systems will be in place to support firms.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential risk to individual saving as those working for smaller employers will start saving under the reforms later than individuals working for large employers.</li> </ul>
Stage employers by size (smallest firms first)	<ul style="list-style-type: none"> <li>• Significant risk to TPR and the Personal Accounts scheme due to uncertainty around the behaviour of small firms. It is anticipated these firms will need the most help and support to adjust as they are least likely to have existing provision.</li> <li>• This does not allow for any test stages of small firms so that systems may be adjusted before high numbers of small firms become subject to the duties.</li> </ul>	<ul style="list-style-type: none"> <li>• Disproportionate burden on small firms who are least likely to have existing pension provision as they become subject to the duties earlier than larger sized firms.</li> <li>• Small firms may find it more difficult to manage the additional costs of pension reform and may have a narrower range of mechanisms to manage these costs than larger firms.</li> <li>• Heavy burden on employers as they may not be able to access the advice and help they require as many firms will be competing for support at the same time.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential risk to individual saving as those working for larger employers will start saving under the reforms later than individuals working for small employers.</li> </ul>

7. **The chosen option currently proposed is to stage employers into the duties by size (largest firms first).** Data shows that pension provision is highest amongst large employers (99 per cent with provision) and lowest amongst smaller employers (26 per cent with provision)<sup>4</sup>. A staged approach by employer size allows small and micro firms more time to adjust to the costs of reform.

<sup>4</sup> Employers Pension Provision Survey 2007.

8. The options considered for the length of the staged approach are shown in Table B.

Table B: Options for the length of the staged approach			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
All employers are subject to the duties at the same time	<ul style="list-style-type: none"> <li>• Significant risk for TPR and Personal Accounts scheme due to uncertainty around the number of employers and employees that will need to be processed. All employers (1.3 million) will have to interact with TPR and will be able to use the Personal Accounts scheme (3-6 million jobholders)<sup>5</sup>.</li> <li>• The behaviour of employers with no history of pension provision is unknown, and so it is difficult to estimate how much support these employers will need.</li> </ul>	<ul style="list-style-type: none"> <li>• Heavy burden on pension schemes, could lead to an unmanageable peak in automatic enrolment activity.</li> <li>• Employers may not be able to access the advice and help they require as many firms will be competing for support at the same time.</li> <li>• Simple to understand as all employers become subject to the duties at the same time.</li> </ul>	<ul style="list-style-type: none"> <li>• Maximises individual saving if automatic enrolment is achieved as early as possible. This is because all individuals would start receiving and making contributions at the same time.</li> <li>• Risk to individual saving if employers are unable to access the advice, help and support they need as automatic enrolment may be delayed or not take place.</li> </ul>
Staged implementation on Common Commencement Dates <sup>6</sup> (CCDs)	<ul style="list-style-type: none"> <li>• Significant risk to TPR as 500,000 employers would need support on how to comply with the duties at the same time.</li> <li>• Significant risk to TPR and the Personal Accounts scheme as there would be very high numbers of employers and employees being staged in at each date.</li> <li>• The use of CCDs would mean an implementation period of twelve to fifteen years.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimal burden on employers as CCDs would allow employers to plan ahead, which could help alleviate some of the burden, particularly for small firms.</li> <li>• The Better Regulation Executive estimate that applying new regulations on CCDs leads to an overall reduction in costs, as employers expect to spend less time scanning the horizon looking for new regulations<sup>7</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>• Significant risk to individual saving as some jobholders would not be automatically enrolled until 2025.</li> </ul>

<sup>5</sup> <http://www.dwp.gov.uk/policy/pensions-reform/factsheets-and-supporting/>

<sup>6</sup> Bringing in new legislation affecting business in April and October of every year.

<sup>7</sup> Source: Department for Business, Innovation and Skills - Full and Final Impact Assessment for Common Commencement Dates.

**Table B: Options for the length of the staged approach**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
		<ul style="list-style-type: none"> <li>Burden on pension schemes as CCDs over a reasonable time period would lead to unmanageable peaks in automatic enrolment activity.</li> <li>Also, employers may not be able to access the advice and help they require as many firms will be competing for support at the same time.</li> </ul>	
<p>Less than three years for staged implementation (not on CCDs)</p>	<ul style="list-style-type: none"> <li>Significant risk to TPR and the Personal Accounts scheme in delivering key elements of the reforms.</li> <li>Significant risk to TPR and the Personal Accounts scheme due to uncertainty around behaviour and expected high numbers of employers and employees at each stage leading to unmanageable peaks in automatic enrolment activity.</li> <li>Risk to TPR to provide communications and support to mitigate use of non-CCDs.</li> </ul>	<ul style="list-style-type: none"> <li>Heavy burden on employers as they may not be able to access the advice and help they require as many firms will be competing for support at the same time.</li> <li>Heavy burden on pension schemes as could lead to unmanageable peaks in automatic enrolment activity.</li> <li>Burden on employers as they will become subject to the duties on dates other than CCDs.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving if automatic enrolment is achieved as early as possible.</li> <li>Risk to individual saving if employers are unable to access the advice, help and support they need as automatic enrolment may be delayed or not take place.</li> </ul>
<p>Three years for staged implementation (twenty five to thirty stages not on CCDs)</p>	<ul style="list-style-type: none"> <li>Minimum period required for TPR and the Personal Accounts scheme to deliver key elements of the reforms.</li> <li>Manageable automatic enrolment activity for TPR and the Personal</li> </ul>	<ul style="list-style-type: none"> <li>Burden on employers as they will become subject to the duties on dates other than CCDs.</li> <li>Minimal burden on schemes with manageable automatic enrolment activity.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving if automatic enrolment is achieved as early as possible.</li> <li>Protects individual saving as employers are able to access the advice, help and support they</li> </ul>

Table B: Options for the length of the staged approach			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
	<p>Accounts scheme where no more than 100,000 employers and 1.3 million employees will become subject to the duties at each stage.</p> <ul style="list-style-type: none"> <li>• Risk to TPR to provide communications and support to mitigate use of non-CCDs.</li> </ul>		<p>need leading to higher employer compliance.</p>
<p>More than three years for staged implementation (not on CCDs)</p>	<ul style="list-style-type: none"> <li>• Low risk for TPR and the Personal Accounts scheme as a long period would help manage the number of employers and employees and reduce the challenge of delivering key elements of the reforms.</li> <li>• Risk to TPR to provide communications and support to mitigate use of non-CCDs.</li> </ul>	<ul style="list-style-type: none"> <li>• Burden on employers as they will become subject to the duties on dates other than CCDs.</li> <li>• Minimal burden on schemes with manageable automatic enrolment activity.</li> </ul>	<ul style="list-style-type: none"> <li>• Risk to individual saving as more individuals would have to wait longer to start pension saving.</li> </ul>

9. **The chosen option currently proposed is for the staged approach to last for three years (twenty five to thirty stages not on CCDs).** It provides a balance between the Government's objectives to reduce employer burden, maximise individuals' pension saving and minimise operational risks to delivery in order to implement the reforms effectively.
10. Overall, the principles of the implementation approach are that employers will be staged from the largest to the smallest (between twenty five and thirty stages) and over three years from October 2012 to October 2015. This strikes the right balance between getting people into saving as soon as possible, and minimising operational risks associated with reform. A staged implementation approach for these reforms provides both delivery authorities the opportunity to adjust systems and processes based on experience from early stages.
11. Within the staged implementation approach there could be one or two test groups of randomly selected small and micro employers who become subject to the duties six months ahead of other similar sized firms. These employers are less likely to already have pension provision in place, and may need more support to help them understand and comply with their duties. This approach is designed to enable the delivery authorities to understand the responses of small and micro employers, and to adjust their communications and compliance regimes to best meet their needs.

12. The exact detail of the design of the staged approach is currently under review, but the principles outlined are considered the best approach in order to implement the reforms effectively. The final design will be primarily based on operational considerations, to provide practical solutions to the significant delivery challenges.

*Transitional arrangements for Defined Contribution (DC) schemes:*

13. In addition to the staged approach, employers will be able to phase in their contributions gradually under the transitional arrangements described in the Pensions Act 2008. This simply means that employers will not pay the full contribution immediately, instead, there will be two transitional periods where contributions will increase from 1 per cent to 2 per cent, before moving to 3 per cent in steady state.

14. The options considered for the length of the first transitional period are shown in Table C.

Table C: Options for length of the first transitional period			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
First transitional period shorter than staged implementation	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Disproportionate burden on firms who have to start paying 2 per cent while some firms are not making any contributions.</li> <li>Some employers would not benefit from paying 1 per cent contributions before moving to 2 per cent contributions, although they would be making no contributions for longer.</li> </ul>	<ul style="list-style-type: none"> <li>Maximises individual saving by providing minimum contributions as quickly as possible.</li> </ul>
First transitional period to match staged implementation (three years)	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers who all start paying 1 per cent after they are staged into the duties with no employers having to increase their contributions to 2 per cent before all firms are staged in.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving, by providing minimum contributions as quickly as possible.</li> </ul>
First transitional period longer than staged implementation	<ul style="list-style-type: none"> <li>Potential operational implications for all schemes. Low contributions for longer would mean that returns to pension schemes (including Personal Accounts) would be</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers who continue to pay 1 per cent contributions even after all firms are staged in.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving as pension contributions are lower. Could also affect the incentive for individuals to remain in pension provision as saving is minimal.</li> </ul>

**Table C: Options for length of the first transitional period**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
	<ul style="list-style-type: none"> <li>delayed.</li> <li>Risk to the Personal Accounts scheme in managing additional automatic enrolment activity if other pension schemes find it unprofitable to operate in the wider market.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to profitability of pension schemes as limits returns during the transitional period.</li> </ul>	

15. **The chosen option currently proposed is for the first transitional period to match staged implementation.** The period where employers will contribute 1 per cent will be extended from the one year minimum to match the length of staged implementation (three years starting in October 2012). All employers will then move to the next level of contributions at the same time, meaning that no employer will be required to pay 2 per cent before all firms are staged in.

16. The options considered for the length of the second transitional period are shown in Table D.

**Table D: Options for length of the second transitional period**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Second transitional period for one year	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers who are able to pay 2 per cent contributions for one year before moving to 3 per cent in steady state.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving by providing minimum contributions as quickly as possible.</li> </ul>
Second transitional period for longer than one year	<ul style="list-style-type: none"> <li>Potential operational implications for all schemes. Low contributions for longer would mean that returns to pension schemes (including Personal Accounts) would be delayed.</li> <li>Risk to the Personal Accounts</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers who continue to pay 2 per cent contributions for more than one year.</li> <li>Risk to profitability of pension schemes as limits returns during the transitional period.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving as pension contributions are lower. This could also affect the incentive for individuals to remain in pension provision as saving is minimal.</li> </ul>

**Table D: Options for length of the second transitional period**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
	scheme in managing additional automatic enrolment activity if other pension schemes find it unprofitable to operate in the wider market.		

17. **The chosen option is for the second transitional period to last for one year** from October 2015. Employers' contributions will increase to 2 per cent before moving to 3 per cent contributions at the end of the second transitional period, this is the minimum level required to fulfil their duties in steady state.
18. Determining the length of the transitional periods has to balance minimising burdens to help employers adjust to the additional contribution costs of pension provision, and relaying the messages about implementation as clearly as possible with maximising individuals' total pension provision. Further, in line with the Government's better regulation principles, increases in contribution rates should take place on CCDs (6 April or 1 October).

*Transitional arrangements for Defined Benefit (DB) schemes:*

19. There are transitional arrangements for those employers using DB and hybrid schemes<sup>8</sup>. Contributions cannot be phased over a number of periods as with DC transitional arrangements. This is due to the funding arrangements for DB and hybrid schemes which need to be maintained at an appropriate level agreed between the trustees and the employer.
20. Employers using DB schemes may delay automatic enrolment for existing jobholders who are eligible for the scheme but have previously chosen not to join, this known as a transitional period. The options considered for the length of the DB transitional period are shown in Table E.

<sup>8</sup> A hybrid scheme has been defined as an occupation pension scheme that is not purely DB or purely DC.

**Table E: Options for the length of the DB transitional period**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Transitional period shorter than staged implementation	<ul style="list-style-type: none"> <li>• Risk to pension providers (including Personal Accounts) as there is an incentive for employers to switch from using DB to DC or WPP schemes which are cheaper and benefit from DC transitional arrangements which could result in additional automatic enrolment activity for these providers.</li> </ul>	<ul style="list-style-type: none"> <li>• Disproportionate burden on employers to automatically enrol jobholders into a DB scheme accruing full benefits before other employers using DC and WPP schemes are providing minimum contributions.</li> </ul>	<ul style="list-style-type: none"> <li>• Risk to individual saving if employers using DB schemes have a shorter time period to adjust to the additional costs of the duties. Employers may choose to automatically enrol all new members into cheaper DC or WPP schemes.</li> </ul>
Transitional period to match staged implementation (three years)	<ul style="list-style-type: none"> <li>• Risk to TPR to ensure individuals are automatically enrolled into DB schemes after the transitional period.</li> <li>• Risk to the Personal Accounts scheme of additional automatic enrolment activity if employers close down their DB scheme during the transitional period and must then find an alternative qualifying scheme.</li> </ul>	<ul style="list-style-type: none"> <li>• Proportionate burden on employers offering DB schemes by allowing time to adjust to the additional costs of reform.</li> <li>• Minimal burden of employers as easy to understand and provides parity with DC transitional arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• Protects individual saving by encouraging the maintenance of DB provision.</li> </ul>
Transitional period longer than staged implementation	<ul style="list-style-type: none"> <li>• Significant risk to TPR to ensure individuals are automatically enrolled into DB schemes after the transitional period.</li> <li>• Risk to the Personal Accounts scheme of additional automatic enrolment activity if employers close down their DB scheme during the transitional period and must then find an alternative qualifying scheme.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimal burden on employers as individuals accrue less pension rights from being members of the scheme for a short time period.</li> </ul>	<ul style="list-style-type: none"> <li>• High risk to individual saving if employers are allowed to delay automatic enrolment for a long period.</li> </ul>

21. **The chosen option currently proposed is that the transitional period matches the length of the staged implementation (three years).** The length of the transitional period has been determined by examining the trade off between minimising employer burdens and protecting individuals' interests. Three years strikes a balance between these objectives and allows employers the opportunity to delay the requirements of the duties. It also matches the staged implementation window to provide parity for employers offering DB schemes with those offering DC schemes. Currently 450,000 out of 2.6 million employees (17 per cent)<sup>9</sup> who work for an employer offering a DB scheme are not members of that scheme<sup>10</sup>. These include workers who are not eligible for the pension scheme, those who are in a waiting period<sup>11</sup> and those who chose to opt-out of the scheme.
22. In circumstances where the employer's pension arrangements change from DB to DC during the transitional period, the individual will benefit from backdated employer contributions i.e. they will get the full contributions as if they had been in a DC scheme from the employer's automatic enrolment date. In these circumstances employees will also have the opportunity to maximise their provision by making backdated contributions for this period.
23. The options considered for the time limit for payment of backdated employee contributions are shown in Table F.

Table F: Options for the time limit for payment of backdated employee contributions			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Cut-off before October 2016	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Burden on employers to administer additional contributions.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving as they may be unable to afford to pay backdated contributions as well as meet their existing pension contributions over a short period of time.</li> </ul>
Cut-off at October 2016	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Burden on employers to administer additional contributions.</li> <li>Easy for employers to understand as provides parity with DC transitional arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individuals saving by smoothing their backdated contributions over a reasonable period alongside existing pension contributions.</li> </ul>
Cut-off later than October 2016	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Burden on employers to administer additional contributions.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving by smoothing their backdated</li> </ul>

<sup>9</sup> Employers Pension Provision Survey 2007.

<sup>10</sup> Includes employers with open DB schemes and employers with DB schemes that are closed to new members.

<sup>11</sup> A waiting period is the length of time an employee has to work for an employer before they can join the employer's pension scheme.

contributions over a long period of time alongside existing pension contributions.

24. **The chosen option is the cut-off at October 2016.** This provides a balance between giving individuals a reasonable period of time in which to smooth backdated contributions, whilst paying their existing contributions, so as not to cause unnecessary financial strain and provides employers and schemes with certainty that the repayment period will not be drawn out.
25. Following staged implementation all employees will have at least one year to make backdated contributions. Employees working for the smallest employers will be able to make backdated contributions from their employers automatic enrolment date to October 2016, which will last for a minimum of one year.
26. Given that individuals can generally make additional voluntary payments into a pension scheme, it is reasonable for all individuals to have at least one year to make these backdated contributions. This would mean that all transitional arrangements for all schemes would be complete by October 2016.
27. If an individual earning £24,000<sup>12</sup> was switched from a DB scheme and instead automatically enrolled into a DC scheme at the end of the three year staged period, they could have accumulated unpaid backdated contributions to a DC scheme of £569 (a maximum three years of contributions at 1 per cent). If they then paid these back smoothly over the next year, they would be required to pay an additional £47.40 each month, in addition to their existing minimum contributions of £47.40 each month.

#### Maximising individuals' opportunities to save

28. Legislation is designed to make pension saving as simple as possible for individuals. This section examines policies which enable individuals to take up pension saving from the introduction of the duties.

#### *Voluntary saving:*

29. Voluntary opt-in allows individuals who do not fall under the automatic enrolment criteria: jobholders aged 16 to 22 or state pension age to 75, and workers earning less than £5,035 to opt-in to pension saving. DWP estimate that some 0.1-0.2 million people may opt-in to the Personal Accounts scheme each year.
30. The options considered for the source of the opt-in form are shown in Table G.

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<sup>12</sup> Figures are based on a median income earner of £24,000 per year from Annual Survey of Hours and Earnings 2007.

Table G: Options for the source of the opt-in form			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Opt-in form from the employer	<ul style="list-style-type: none"> <li>Potential risk to effectiveness of TPR's compliance regime through having to ensure employers provide individuals with opt-in forms.</li> </ul>	<ul style="list-style-type: none"> <li>Heavy burden on employers particularly where the employer acts as an agent for the scheme and the role of the scheme and the employer is not always clear.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving as they may lose out on pension provision where employers provide advice and discourage jobholders from opting-in.</li> </ul>
Opt-in form from the scheme	<ul style="list-style-type: none"> <li>Burden on schemes (including Personal Accounts) to provide opt-in form.</li> </ul>	<ul style="list-style-type: none"> <li>Potential burden on employers, where the employer acts as an agent for the scheme and the role of the scheme and the employer is not always clear.</li> <li>Burden on employers as a mechanism would have to be put in place for employers to inform individuals which scheme to approach for a form.</li> <li>Also removes burden on employers to advise individuals about pension saving.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving as source of the opt-in form may be unknown if an employer has no jobholders eligible for automatic enrolment and therefore does not already have a scheme.</li> <li>Minimal risk of employers discouraging individuals from saving.</li> </ul>
Multi-option: any form of written request	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers and schemes in not having to provide an opt-in form.</li> </ul>	<ul style="list-style-type: none"> <li>Maximises individual saving by creating a flexible and easy process by which pension provision can be accessed.</li> </ul>

31. **The chosen option is the multi-option, where any individual can use any form of written request** to either the employer or scheme, or both. This makes it easy and straightforward for people to opt-in once they have made the decision to save. It also provides flexible arrangements enabling employers and schemes to offer opt-in mechanisms which best suit their workforce and the business arrangements between the employer and scheme. This balances the burden on employers with protecting individual saving.
32. Those jobholders who have qualifying earnings and choose to opt-in will be treated equally to those eligible jobholders that employers must automatically enrol under the duties. The receipt by the employer of an opt-in notice triggers the same automatic enrolment process and employer contribution.

33. For workers earning less than £5,035, employers will be required to provide access to a pension scheme if the individual notifies their employer in writing. In order to minimise burdens employers will only need to facilitate access to a scheme and not provide an automatic enrolment scheme or pay an employer contribution.

*Automatic re-enrolment:*

34. Re-enrolment is a policy designed to safeguard individuals' long term pension saving. Employers will be required to re-enrol eligible jobholders who opted-out at the initial automatic enrolment date or those who subsequently cancelled their membership into a qualifying scheme.
35. The Pensions Act 2008 allows scope to decide the anniversary date to which re-enrolment should be linked. The options considered to whom the anniversary for re-enrolment should be linked are shown in Table H.

Table H: Options to whom the anniversary for re-enrolment should be linked			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Employer anniversary (linked to when employer is staged in)	<ul style="list-style-type: none"> <li>Risk to the effectiveness of TPR's compliance regime as they may be a high number of employer queries to deal with.</li> </ul>	<ul style="list-style-type: none"> <li>Moderate employer burden as there is one re-enrolment date for all jobholders within each firm.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving by ensuring that all jobholders are re-enrolled in a straightforward process.</li> </ul>
Individual anniversary (linked to individuals automatic enrolment date)	<ul style="list-style-type: none"> <li>Risk to effectiveness of TPR's compliance regime as each individual would have a unique re-enrolment date.</li> </ul>	<ul style="list-style-type: none"> <li>Heavy burden on employers to track each individual's record of opt-out, cancellation etc. Employers would also have to undertake automatic re-enrolment continuously depending on when the jobholder left pension saving.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving by re-rolling each jobholder a fixed period after they have left pension saving.</li> </ul>

36. **The chosen option is re-enrolment on the employer's anniversary** as it minimises the burden on employers and ensures that an effective compliance regime can be delivered.
37. Given the choice of linking automatic re-enrolment to an employer anniversary the Pensions Act 2008 specifies that an employer should not have more than one automatic re-enrolment date in any period of three years. The options considered for the length of the period after automatic enrolment are shown in Table I.

**Table I: Options for the length of the period after automatic enrolment**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Three years	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Moderate employer burden as employers only have to carry out re-enrolment once every three years.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving by striking the right balance between the likelihood of a change in an individual's circumstances and making an active decision to save.</li> </ul>
More than three years	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal employer burden as employers would have to carry out re-enrolment less often.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual beginning pension saving as circumstances could have changed substantially within three years, but an individual would have to make an active decision to save rather than being automatically re-enrolled.</li> </ul>

38. **The chosen option is a period of three years for re-enrolment to take place.** This balances the burden on employers and ensures a reasonable time period for an individual's circumstances to have changed enough such that the outcome of their saving decision may be different. This policy aims to reduce decision making inertia, where individuals will have the opportunity to re-assess their circumstances and may choose to stay in the scheme at the point of re-enrolment.

39. The options considered for the date on which employers are required to carry out re-enrolment are shown in Table J.

**Table J: Options for the date on which employers are required to carry out re-enrolment**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Six CCDs over a three year period	<ul style="list-style-type: none"> <li>Significant risk for schemes and providers (including Personal Accounts), as around 130,000 employers would be required to automatically re-enrol in a single</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers as easy for them to understand when duties apply.</li> <li>Burden on scheme resources to have the capacity to administer re-</li> </ul>	<ul style="list-style-type: none"> <li>Significant risk to individual saving where employers are unable to access the advice, help and support they need which could result in a delay to automatic re-</li> </ul>

**Table J: Options for the date on which employers are required to carry out re-enrolment**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
	<p>month.</p> <ul style="list-style-type: none"> <li>Significant risk to the effectiveness of TPR's compliance regime as there may be a high number of employer queries to deal with.</li> </ul>	<p>enrolment in two peaks each year.</p> <ul style="list-style-type: none"> <li>Employers may not be able to access the advice, help and support they require as many firms will be competing for support at the same time.</li> </ul>	<p>enrolment.</p>
Twelve quarterly non CCDs over a three year period	<ul style="list-style-type: none"> <li>Operational risk for schemes and providers (including Personal Accounts), as around 60,000 employers would be required to automatically re-enrol in a single month.</li> </ul>	<ul style="list-style-type: none"> <li>Burden on employers to remember their re-enrolment date.</li> <li>Burden on scheme resources to have the capacity to administer re-enrolment in four peaks each year.</li> <li>Employers may not be able to access the advice, help and support they require as many firms will be competing for support at the same time.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving where employers are unable to access the advice, help and support they need which could result in a delay to automatic re-enrolment.</li> </ul>
Three years from staged implementation date	<ul style="list-style-type: none"> <li>Low risk for schemes, providers and TPR as the number of employers enrolling and re-enrolling at any point in time should not exceed the numbers during staged implementation.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers as easy to remember when the duties apply.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving as employers are able to access the advice, help and support they need, thus increasing compliance.</li> </ul>

40. **The chosen option is to link re-enrolment to the third year after the employers' staged implementation date**, which is the most operationally viable for the delivery authorities. Employers will be required to automatically re-enrol only those jobholders who are not already active members of a qualifying pension scheme every three years.

41. There will be an exemption whereby jobholders who have recently opted-out or cancelled membership will not need to be re-enrolled. This is because these individuals' circumstances are less likely to have changed significantly. The options considered for the length of the exemption period are shown in Table K.

**Table K: Options for the length of the exemption period**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Less than a twelve month exemption period	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Heavy burden on employers to re-enrol jobholders who are likely to opt-out having already opted-out or cancelled membership within the last twelve months.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving by giving jobholders the maximum opportunity to save.</li> <li>However, jobholders who have opted-out or cancelled membership within the last twelve months are more likely to opt-out again and it may have an impact on their views on pension saving.</li> </ul>
Twelve month exemption period	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers as they do not have to re-enrol jobholders who have opted-out or cancelled membership within the last twelve months.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving by giving jobholders a reasonable period for their circumstances to change before being automatically re-enrolled.</li> <li>Maximises individual saving as reduces the likelihood of them opting-out again.</li> </ul>
More than a twelve month exemption period	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal employer burden as they will have to re-enrol jobholders less often.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving as some jobholders remain out of pension saving for a long period of time due to inertia (potentially more than four years).</li> </ul>

42. **The chosen option is a twelve month exemption period for re-enrolment** of some employees who had recently opted-out or cancelled membership. This was considered to best protect the individual's interest and maximise potential total pension provision. There is however an additional burden on the employer as they will be required to identify individuals who are exempt and therefore do not have to be automatically re-enrolled.
43. There are specific circumstances where the routine three years automatic re-enrolment will not be appropriate and where it will not be sufficient to rely on jobholders opting back into pension saving. The Pensions Act 2008 specifies three specific scenarios where

re-enrolment will be required to be carried out immediately. These scenarios all involve the jobholder ceasing to be a member of the scheme as a result of an intervention by a third party.

*Employer duty to maintain active membership:*

44. Continuity of scheme membership was introduced to protect individuals' pension saving when the employer chooses to move from one qualifying scheme to another; and allows the employer to carry out the necessary administrative processes without fear of being in breach of the duties resulting from a technical delay.
45. The regulations allow a period to be specified between the end of active membership in the original qualifying scheme and the start of active membership in a replacement scheme. The options considered for the length of the prescribed period are shown in Table L.

Table L: Options for the length of the prescribed period			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
No prescribed period	<ul style="list-style-type: none"> <li>Risk to TPR's resource in having to investigate minor technical breaches even when there is only a short administrative delay.</li> </ul>	<ul style="list-style-type: none"> <li>Burden for some employers, in the event of an administrative delay they could potentially face an inadvertent but technical breach of the duties.</li> </ul>	<ul style="list-style-type: none"> <li>Maximises individual saving as gives certainty of continuous contributions for individuals where employers would have to provide a replacement scheme immediately.</li> </ul>
One month prescribed period	<ul style="list-style-type: none"> <li>Low risk to TPR's resource in having to investigate technical breaches.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers who experience administrative delays.</li> </ul>	<ul style="list-style-type: none"> <li>Low risk to individual saving as this limits the break in contributions to one month, but could potentially occur a number of times over their life.</li> </ul>
Three month prescribed period	<ul style="list-style-type: none"> <li>Low risk to TPR's resource in having to investigate technical breaches.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers who experience administrative delays.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving where employers change schemes to avoid paying contributions for three months, could potentially occur a number of times over their life.</li> </ul>

46. **The chosen option is a one month prescribed period.** This strikes the right balance between enough flexibility for employers to set up the replacement qualifying scheme without the risk of a technical breach of the duties and maximising the individuals' pension provision. Under a one month period a jobholder with median earnings<sup>13</sup> would face a maximum reduction in total fund size of 2 per cent over an average individuals lifetime<sup>14</sup> compared to an individual who experiences continuous contributions throughout their working life. This prescribed period is also consistent with the automatic enrolment joining window therefore simplifying the processes employers have to complete in order to comply with the duties.

Maximising existing good provision

47. The Government's objective is to maximise all pension provision from 2012. An appraisal of policies aimed at protecting existing provision to maintain continuity in existing membership and scheme quality for individuals are set out below.

*Certification for Defined Contribution (DC) schemes:*

48. DC Certification is a mechanism which will allow employers to use existing provision to fulfil the duties provided the scheme meets the quality requirements within an acceptable shortfall<sup>15</sup>. Existing employer provision is unlikely to be based on the reform definition of qualifying earnings. It was therefore necessary to design a vehicle allowing schemes meeting an agreed standard to be used for automatic enrolment.

49. Certification enables employers to use a definition of pensionable pay other than qualifying earnings without having to reconcile marginal and occasional shortfalls in contributions within an acceptable level. The options considered for the certification process are shown in Table M.

Table M: Options for the certification process			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Certification with no checking	<ul style="list-style-type: none"> <li>Significant challenge to TPR to ensure individuals are receiving minimum contributions.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers and schemes.</li> </ul>	<ul style="list-style-type: none"> <li>Significant risk to individual saving as TPR have no way to check that they receive at least minimum contributions.</li> </ul>
Employer based certification sample	<ul style="list-style-type: none"> <li>Potential challenge to TPR to ensure individuals are receiving</li> </ul>	<ul style="list-style-type: none"> <li>Moderate employer burden as the cost of professional advisors are</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving, by ensuring that most individuals</li> </ul>

<sup>13</sup> Figures are based on a median income earner of £24,000 per year from Annual Survey of Hours and Earnings 2007.

<sup>14</sup> A jobholders average working life is forty three years, over this period they may experience up to eight separate one month periods where contributions are not continuous.

<sup>15</sup> To protect an individual's total pension fund where they have not received minimum employer contributions.

checking	minimum contributions.	avoided.	continue membership in an existing scheme which is likely to provide minimum contributions.
Independent certification and individualised checking	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Significant employer burden as the cost of professional advisors and 100 per cent individualised checking is incurred.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving by ensuring that individuals continue membership in an existing scheme which is likely to provide minimum contributions.</li> <li>However, potential risk to individual saving as there is additional burden of individualised checking on employers in maintaining good provision.</li> </ul>

50. **The chosen option is an employer based certification process supported by sample checking** which minimises employer burden without significant risk to individuals' savings. Employers will be able to decide on the extent to which they check individuals contributions and focus the most detailed checks on those most at risk of not receiving the minimum level of contributions.

51. Persistency relates to the number of times that a jobholder could experience a shortfall in contributions. The options considered for the acceptable number of times a jobholder could experience a shortfall are shown in Table N.

**Table N: Options for the acceptable number of times a jobholder could experience a shortfall**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Do not regulate	<ul style="list-style-type: none"> <li>Potential challenge to TPR to ensure that individuals are receiving minimum contributions.</li> </ul>	<ul style="list-style-type: none"> <li>No burden on employers and schemes.</li> </ul>	<ul style="list-style-type: none"> <li>Significant risk to individual saving as they could experience a shortfall every year of their working life.</li> </ul>
No more than once every two years	<ul style="list-style-type: none"> <li>Potential challenge to TPR to ensure that individuals are receiving minimum contributions.</li> </ul>	<ul style="list-style-type: none"> <li>Potential burden on employers of keeping records and checking individuals at risk of a shortfall in contributions.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving as they could experience a minor shortfall no more than twenty two times in a working life of forty three years<sup>16</sup>.</li> </ul>

<sup>16</sup> DWP modelling.

**Table N: Options for the acceptable number of times a jobholder could experience a shortfall**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
No more than once every five years	<ul style="list-style-type: none"> <li>Potential challenge to TPR to ensure that individuals are receiving minimum contributions.</li> </ul>	<ul style="list-style-type: none"> <li>Burden on employers of checking individuals records who are at risk of a shortfall in contributions for five years.</li> </ul>	<ul style="list-style-type: none"> <li>Low risk to individual saving as they could experience a minor shortfall no more than eight times in a working life of forty three years<sup>17</sup>.</li> </ul>

52. **The chosen option is no more than once every two years.** This minimises the impact on an individual’s pension fund and ensures that saving is maintained at the acceptable level being targeted by the reforms while balancing the impact on employers.
53. Systematic shortfalls relate to the number of jobholders working for an employer that could experience any shortfall in their contributions. The options considered for the acceptable proportion of individuals experiencing a shortfall are shown in Table O.

**Table O: Options for the acceptable proportion of individuals experiencing a shortfall**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Up to 10 per cent of jobholders experience a shortfall	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Moderate burden on employers as they would need to carry out some detailed checks of contributions.</li> </ul>	<ul style="list-style-type: none"> <li>Low risk to individual saving as less than 10 per cent of the workforce could experience a shortfall in contributions.</li> </ul>
More than 10 per cent of jobholders experience a shortfall	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers as they would need to carry out few detailed checks of contributions.</li> </ul>	<ul style="list-style-type: none"> <li>Significant risk to individual saving as more than 10 per cent of the workforce could experience a shortfall in contributions.</li> </ul>

54. **The chosen option is to allow up to 10 per cent of jobholders to experience a shortfall in contributions.** This reduces the burden on employers and does not undermine the scheme quality requirements. It also reduces the impact on individuals’ savings.

<sup>17</sup> DWP modelling.

55. The level of the shortfall experienced by any jobholder should be within an acceptable limit. The options considered for the acceptable level of the shortfall are shown in Table P.

Table P: Options for the acceptable level of the shortfall			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
No more than 5 per cent shortfall in contributions	<ul style="list-style-type: none"> <li>Potential challenge to TPR to ensure that individuals are receiving minimum contributions.</li> </ul>	<ul style="list-style-type: none"> <li>Potential burden as more employers may need to set up a new scheme.</li> <li>Potential employer burden where the shortfall could be very small and so outweighed by the cost of making good on the shortfall.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving as they do not receive minimum contributions.</li> <li>However, the shortfall will not exceed 5 per cent of minimum contributions (8 per cent of qualifying earnings); and the effect will be the same across all income groups.</li> <li>In the worst case scenario<sup>18</sup> it is anticipated that there would be a maximum reduction of 3 per cent<sup>19</sup> in an individual's total pension fund; and the effect will be the same across all income groups.</li> </ul>
More than 5 per cent shortfall in contributions	<ul style="list-style-type: none"> <li>Potential challenge to TPR to ensure that individuals are receiving minimum contributions.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal employer burden as they will not be required to set up a new scheme where the existing one is certified as satisfactory.</li> </ul>	<ul style="list-style-type: none"> <li>Significant risk to individual saving as there would be an unacceptable reduction in total pension funds from the minimum contribution.</li> </ul>

56. **The chosen option is to allow an acceptable level of shortfall of no more than 5 per cent in contributions.** This level of shortfall balances individuals' savings against the burden on employers.

<sup>18</sup> Where the employee experiences a shortfall every other year and only has one employer during the working life.

<sup>19</sup> Rounded to the nearest percentage. This does not include any assumptions about returns on investment.

57. This policy has been designed to simplify the payroll processes for some employers, in order to help employers meet the quality requirements under the duties and minimise burdens whilst maximising pension saving. Employers with existing schemes will be able to use the certification process<sup>20</sup> within an acceptable level of shortfall<sup>21</sup>.
58. Of all employees currently enrolled in DC schemes 92 per cent<sup>22</sup> are paid more in employer contributions than the minimum requirement under the Pensions Act 2008. As such, the employer may use the certification process to certify that employees will receive at least 8 per cent of qualifying earnings rather than to change their existing provision to meet the qualifying criteria. The shortfall has been set at 5 per cent to ensure a proportionate impact across different income groups.

*Defined Benefit (DB) schemes:*

59. DB schemes have rules to define the benefits independently of the contributions payable. In March 2009, 11 per cent of occupational schemes registered with TPR were declared as DB schemes. The schemes for members in employment that are contracted-out of the State Second Pension Scheme are required to have a contracting-out certificate<sup>23</sup> in order to meet the quality requirements. For schemes with members in employment that are not contracted-out of the State Second Pension Scheme (non-contracted out DB schemes), these are required to provide pensions which are broadly equivalent to or better than:
- 1/120<sup>th</sup> annual accruals of qualifying earnings averaged over three years;
  - multiplied by a maximum forty years pensionable service; and
  - a state pension age of sixty five.
60. DB schemes will have to meet a test of overall scheme quality if they are to be used under the employer duties. The options considered for the test of overall scheme quality for DB schemes are shown in Table Q.

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<sup>20</sup> How employers using existing pension provision will meet the qualifying requirements. For example by carrying out checks that each jobholder received the minimum contribution or keeping records, which could create additional burden for the employer.

<sup>21</sup> Whereby individuals must not experience persistent or systematic shortfalls.

<sup>22</sup> Annual Survey of Hours and Earnings 2007.

<sup>23</sup> This certificate is taken as evidence that the scheme provides pensions which are broadly equivalent to or better than the reference scheme test and is a test of scheme quality for schemes which are contracted out of the State Second Pension Scheme.

Table Q: Options for the test of overall scheme quality for DB schemes			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Employers can determine whether the scheme meets the test scheme standard	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal employer burden.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving as professional advisers are not consulted in complex cases.</li> </ul>
A risk-based approach to who makes the determination	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal employer burden by allowing employers to make determination in straightforward cases.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving by asking an actuary to determine more complex cases.</li> </ul>
An actuary can determine whether the scheme meets the test scheme standard	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Heavy employer burden as this imposes additional costs of consulting professional advisers.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving by consulting an actuary in complex cases.</li> </ul>

61. **The chosen option is a risk based approach to who makes the determination.** Employers can make the determination in straightforward cases, whereas an actuary would make the determination in more complex cases. This maintains a balance between protecting individuals' interests and minimising the burdens on employers.
62. Currently there are 2.7 million people actively accruing rights in private sector DB schemes. Data shows that 130,000 out of 145,000 members of non-contracted-out DB schemes are likely to meet the test scheme standard<sup>24</sup>.
63. In other circumstances (than straightforward cases) employers will be required to seek actuarial determination to protect individuals' interests. By making this comparison the actuary will make projections and assumptions about earnings growth and other related factors to test the scheme quality more broadly against the requirements.

*Hybrid schemes:*

64. A hybrid scheme has been defined as an occupational pension scheme that is not purely DC or purely DB. Rules and guidance will help employers to identify and apply the appropriate quality requirements. Some hybrid schemes may be tailored to suit a particular

<sup>24</sup> Occupational Pension Schemes Survey 2007.

business model or workforce profile. However, generally schemes have clearly identifiable DC and DB components. In March 2009, 3 per cent of occupational schemes registered with TPR were declared as hybrid schemes.

65. The options considered for the test of overall scheme quality for hybrid schemes are shown in Table R.

Table R: Options for the test of overall scheme quality for hybrid schemes			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Set a specific test	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Burden on employers to apply a new specific test for hybrid schemes whereas DC and DB schemes have established tests.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving as the scheme would need to meet a specific standard which would ensure at least minimum contributions.</li> </ul>
Use the test for DB schemes	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Burden on employers specifically those with hybrid schemes with largely DC characteristics, as professional advice would be required.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving as the scheme would need to meet the DB scheme standard which would ensure at least minimum contributions.</li> </ul>
Use the test for DC schemes	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Burden on employers specifically those with hybrid schemes with largely DB characteristics, as professional advice would be required.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving as the scheme would need to meet the DC scheme standard which would ensure at least minimum contributions.</li> </ul>
Use existing tests for DB or DC schemes	<ul style="list-style-type: none"> <li>No operational implications.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers as they are able to use an existing test which is most appropriate to the characteristics of their scheme.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving as the scheme would meet the test scheme standard for DB schemes or the DC quality requirements.</li> </ul>

66. **The chosen option is to use the existing DB or DC scheme test for hybrid schemes.** There is no specific quality test for hybrid schemes as employers will be directed to the DB or DC scheme quality requirements. These quality requirements will sometimes be modified and/or combined in accordance with the benefit structure of the scheme so that they can be applied in a relatively straightforward way, thus minimising burdens on employers whilst protecting individual saving.

*Non-UK schemes:*

67. Non-UK schemes are schemes with their main administration based outside the UK and can be split into two categories: schemes based in the European Economic Area (EEA) and those outside the zone (non-EEA).

68. The options considered for the use of non-UK schemes for automatic enrolment are shown in Table S.

Table S: Options for the use of non-UK schemes for automatic enrolment			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Schemes outside of the EEA cannot be qualifying schemes and cannot be used for automatic enrolment	<ul style="list-style-type: none"> <li>Does not create additional burden on TPR as there is good existing regulatory framework in the UK and EEA.</li> </ul>	<ul style="list-style-type: none"> <li>Burden on multinational employers having to set up and maintain multiple schemes to meet UK legislative requirements.</li> <li>Burden on schemes in managing small pension funds.</li> </ul>	<ul style="list-style-type: none"> <li>Potential risk to individual saving, as employees working in the UK on a temporary basis that fall under the duties could build up a small pension fund which would be of little value to them when they return to their home country.</li> <li>Also protects individual saving, as they would not be exposed to a non-UK regulatory framework.</li> </ul>
All non-UK schemes (EEA and non-EEA) can be qualifying schemes and used for automatic enrolment	<ul style="list-style-type: none"> <li>Risk to effectiveness of TPR's compliance regime as they do not have jurisdiction over non-EEA schemes.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers by allowing them to continue to use their existing provision for automatic enrolment.</li> </ul>	<ul style="list-style-type: none"> <li>Good for employees working in the UK on a temporary basis that fall under the duties as this avoids a build up of small pension funds which would be of little value to them when they return to their home country.</li> <li>Potential risk to individual saving as non-EEA schemes are not regulated under the UK framework.</li> </ul>
Schemes outside of the EEA can be qualifying schemes but cannot be used for automatic enrolment	<ul style="list-style-type: none"> <li>Moderate risk to effectiveness of TPR's compliance regime as they do not have jurisdiction over non-EEA schemes.</li> </ul>	<ul style="list-style-type: none"> <li>High burden for those employers already using good non-EEA provision as they would be required to set up another qualifying scheme for those</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving as they cannot become a member of a non-EEA scheme without having made an active choice.</li> <li>Good for those EEA employees</li> </ul>

**Table S: Options for the use of non-UK schemes for automatic enrolment**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
		<p>jobholders that were not already enrolled.</p> <ul style="list-style-type: none"> <li>Minimal burden on schemes as avoids a build up of small pension funds.</li> </ul>	<p>working in the UK on a temporary basis that fall under the duties as this avoids a build up of small pension funds which would be of little value to them when they return to their home country.</p> <ul style="list-style-type: none"> <li>Risk to individual saving for non-EEA employees working in the UK on a temporary basis that are not members of a qualifying non-UK scheme and fall under the duties. There could be a build up a small pension fund which would be of little value to them when they return to their home country.</li> </ul>

69. **The chosen option is to allow all non-UK schemes to be qualifying schemes and used for automatic enrolment**, provided they meet three additional quality requirements set out in the Pensions Act 2008. These are: the scheme must provide an income in retirement; the scheme must be appropriately regulated by a regulatory body; jobholders receive their full 8 per cent of qualifying earnings, whether a non-UK scheme is eligible for UK tax relief or not.

70. Allowing non-UK schemes to be used by employers to fulfil their duties helps to minimise burdens on employers by encouraging them to maintain existing non-UK based provision. The risk to individuals is balanced by the additional criteria that the Government is setting for non-UK schemes, which will bring them broadly into line with UK schemes and the guidance we will be issuing on the appropriate use by employers of these schemes.

Employer compliance

71. This section explores how the provisions being introduced to support the compliance regime have been designed to minimise the burden on employers and schemes whilst ensuring that TPR has sufficient information to check compliance. TPR's role will be to support and help employers to meet the registration and record keeping requirements.

*Registration:*

72. Following their automatic enrolment date employers will be required to provide information about how they have met their enrolment obligations. This will enable TPR to check compliance.

73. The options considered for the registration process are shown in Table T.

Table T: Options for the registration process			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Obtaining information from pension schemes	<ul style="list-style-type: none"> <li>Risk to the effectiveness of TPR's compliance regime as pension schemes may not have enough information to check employer compliance.</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers.</li> <li>Potential burden on schemes to provide information on employer compliance.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual savings as will not ensure a level playing field for employers.</li> <li>Risk to individual savings as employers may perceive the compliance approach as ineffective, which could reduce the incentive for some to comply.</li> </ul>
Registration prior to automatic enrolment	<ul style="list-style-type: none"> <li>Risk to the effectiveness of TPR's compliance regime as information about intention to automatically enrol may not be correct and cannot be enforced.</li> </ul>	<ul style="list-style-type: none"> <li>Heavy burden on employers where circumstances change as TPR contact employers about scheme choice.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving could arise where employers register but do not automatically enrol. Prior intentions may not result in action and so employers would not be able to make a statutory declaration about how they had complied with their duties.</li> </ul>
Two-step process (involving a statement of intent and confirmation of action)	<ul style="list-style-type: none"> <li>Significant risk to the effectiveness of TPR's compliance regime as employers may not engage with a complex process.</li> </ul>	<ul style="list-style-type: none"> <li>Heavy burden on employers to provide information twice, which adds complexity to the process.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving due to low compliance. The statement of intent is not expected to significantly improve compliance effectiveness as information about what the employer has actually done is most valuable to check compliance.</li> </ul>
Registration after automatic	<ul style="list-style-type: none"> <li>Low risk to the effectiveness of</li> </ul>	<ul style="list-style-type: none"> <li>Low burden on schemes since</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving where</li> </ul>

Table T: Options for the registration process			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
enrolment	TPR's compliance regime as information relates to action the employer has taken.	<p>checks by TPR will be based on more accurate data.</p> <ul style="list-style-type: none"> <li>• Low burden on employers as information should be readily available from the automatic enrolment process, thus reducing complexity.</li> <li>• Effective compliance creates a level playing field for employers.</li> </ul>	employers are incentivised to provide accurate information due to an effective compliance regime.

74. **The chosen option is registration after automatic enrolment.** This balances the burden on employers against the provision of sufficient information to TPR to enable an effective compliance regime. This process will contribute to protecting the rights of individuals to pension saving and maintain a level playing field for employers.

75. TPR will check information provided by employers with pension schemes and against Pay As You Earn data. To make the process as simple as possible TPR will encourage electronic registration, but will accept telephone or paper registration.

*Re-registration:*

76. Employers will also be required to re-register every three years. Re-registration will capture information about compliance with re-enrolment, numbers of employees already in pension saving and numbers of employees otherwise not eligible for re-enrolment.

77. The options considered for the re-registration process are shown in Table U.

Table U: Options for the re-registration process			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
No re-registration	<ul style="list-style-type: none"> <li>• Risk to the effectiveness of TPR's compliance regime as they will need to contact pension schemes and employers to check</li> </ul>	<ul style="list-style-type: none"> <li>• Potential burden due to more sampling of compliant employers and schemes which would create additional time and administrative</li> </ul>	<ul style="list-style-type: none"> <li>• Risk to individual saving due to restrictions on TPR's ability to check compliance on an ongoing basis.</li> </ul>

	compliance at the re-enrolment date.	costs for the employer.	
Re-registration every three years	<ul style="list-style-type: none"> <li>Low risk to the effectiveness of TPR's compliance regime as it enables systematic compliance checks on an ongoing basis.</li> </ul>	<ul style="list-style-type: none"> <li>Burden on employers but will be minimised by requiring the employer to confirm information already supplied where possible.</li> <li>Low burden on employers as there will be less sampling of compliant employers.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving as TPR will be able to provide an effective compliance regime.</li> </ul>

78. **The chosen option is to re-register every three years.** This will enable TPR to take a systematic approach to checking compliance, and support a more effective compliance regime on an ongoing basis. This in turn will benefit individuals by helping maintain access to pension saving and balances the burden on employers.

*Record keeping:*

79. Employers and pension schemes will be required to keep records so that TPR can check compliance with employer obligations, for example the requirement to enrol certain employees. Employers will be required to keep records on their pension arrangements, the enrolment process, and pension contributions. Schemes and providers will be required to keep records of enrolment and opt-out for each employer and information relating to individual scheme members.

80. The options considered for the record keeping requirements are shown in Table V.

Table V: Options for the record keeping requirements			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Fewer or no records in regulations (e.g. use of guidance instead of regulations)	<ul style="list-style-type: none"> <li>Significant risk to the effectiveness of TPR's compliance regime as there is insufficient information to check compliance.</li> </ul>	<ul style="list-style-type: none"> <li>Low burden but employers may not be able to demonstrate to TPR that they had complied with the duties if they were required to.</li> </ul>	<ul style="list-style-type: none"> <li>Risk to individual saving as TPR will not be able to provide an effective compliance regime.</li> </ul>
Records in regulations	<ul style="list-style-type: none"> <li>Low risk to the effectiveness of TPR's compliance regime as there is sufficient information to check that employers are complying with</li> </ul>	<ul style="list-style-type: none"> <li>Minimal burden on employers and schemes as many of the records will already be maintained for other purposes such as tax and payroll.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving as they benefit from employers and pension schemes being required to keep records for compliance.</li> </ul>

	their duties.	There will be no requirement to create new documents where the required information is already held.	
More than records in regulations, such as records on the provision of pensions info to employees, the initial opt-out notice	<ul style="list-style-type: none"> <li>Minimal risk to the effectiveness of TPR's compliance regime as there is sufficient information to check that employers are complying with their duties.</li> </ul>	<ul style="list-style-type: none"> <li>Heavy burden as employers would be required to keep more records that cannot be justified by improvements in compliance.</li> </ul>	<ul style="list-style-type: none"> <li>Protects individual saving as requiring further records to be maintained could improve the effectiveness of TPR's compliance regime.</li> </ul>

81. **The chosen option is to keep records as specified in regulations.** Employers and pension schemes will be required to keep certain records for six years. TPR intends to use records supplied by pension schemes to check that the pension arrangements registered by employers exist and that the scheme has active members.

82. There will be flexibility around the format in which employers and pension schemes must keep these records, for example electronic or paper format. In addition, many of the records will already be maintained for other purposes such as tax and payroll. There will be no requirement to hold separate records in order to minimise the burden on employers. Individuals in turn will benefit from the more effective compliance regime as a result of the requirement to keep records.

### Minimising refunds

#### *Amendment to the nineteen day rule:*

83. Employers must refund jobholders who have opted-out of automatic enrolment within a certain timeframe. Changing the timeframe in which employers must pay employee contributions to the scheme for the duration of the joining window and the opt-out period minimises the need for refunds from scheme to employer. The options considered for changes to the nineteen day rule are shown in Table W.

Table W: Options for changes to the nineteen day rule			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
Pay contributions over to the scheme by 19 <sup>th</sup> day of the	<ul style="list-style-type: none"> <li>Risk to TPR of the opt-out period not being triggered if automatic enrolment does not take place and</li> </ul>	<ul style="list-style-type: none"> <li>Minimal employer burden as they will not have to process refunds from schemes in all cases</li> </ul>	<ul style="list-style-type: none"> <li>Minimises additional risk to individual saving as the maximum time contributions could be held by</li> </ul>

**Table W: Options for changes to the nineteen day rule**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
month following opt out	<p>therefore contributions not being technically due.</p> <ul style="list-style-type: none"> <li>• Risk to the effectiveness of TPR's compliance regime as the employer may continue to take contributions.</li> </ul>	<p>irrespective of when in the month the jobholder is automatically enrolled and when they choose to opt out.</p> <ul style="list-style-type: none"> <li>• Minimal burden of refund from employer to jobholder as can refund from existing funds in all cases.</li> <li>• Removes burden in relation to refunds and investment risk from schemes in all cases irrespective of when in the month the jobholder is automatically enrolled and when they choose to opt out.</li> </ul>	<p>the employer is seventy two days in all cases.</p> <ul style="list-style-type: none"> <li>• Risk to individual saving if TPR cannot pursue late payments of contributions due to not being technically due as opt out period has not been triggered.</li> <li>• Risk to individual saving as TPR may not be able to provide an effective compliance regime if opt-out period is not triggered and the employer continues to take contributions.</li> </ul>
Pay contributions over to the scheme by 19 <sup>th</sup> day of second month following deduction	<ul style="list-style-type: none"> <li>• Risk to the effectiveness of TPR's compliance regime, as this creates two due dates for contributions to be taken during the joining and opt-out period which is more complex to show on the payment schedule.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimal employer burden of processing refunds from the scheme as removes the requirement of refunds in most cases depending when in the month the jobholder is automatically enrolled and when they choose to opt-out.</li> <li>• Minimal burden of refund from employer to jobholder as can refund from existing funds in most cases.</li> <li>• Removes burden in relation to refunds and investment risk from schemes in most cases depending when in the month the jobholder is automatically enrolled and when they choose to opt out.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimises additional risk to individual saving as the maximum time contributions could be held by the employer is seventy two days in all cases.</li> </ul>

**Table W: Options for changes to the nineteen day rule**

Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
<p>Pay contributions over to the scheme by 19<sup>th</sup> day of the second month following the automatic enrolment date</p>	<ul style="list-style-type: none"> <li>• Low risk as automatic enrolment date is not linked to other employer duties.</li> <li>• Low risk to the effectiveness of TPR's compliance regime as creates one due date for all contributions to be taken during joining window and opt-out period which is simple to communicate on the payment schedule.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimal administrative burden of employer processing refunds from the scheme as removes the requirement of refunds in most cases depending when in the month the jobholder is automatically enrolled and when they choose to opt out.</li> <li>• Minimal burden of refund from employer to jobholder as can refund from existing funds in most cases.</li> <li>• Removes burden in relation to refunds and investment risk from schemes in most cases depending when in the month the jobholder is automatically enrolled and when they choose to opt-out.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimises additional risk to individual saving as the maximum time contributions could be held by the employer is seventy two days in all cases.</li> </ul>
<p>Pay contributions over to the scheme by 19<sup>th</sup> day of the third month following the automatic enrolment date</p>	<ul style="list-style-type: none"> <li>• Low risk as automatic enrolment date not linked to other employer duties.</li> <li>• Low risk to the effectiveness of TPR's compliance regime as creates one due date for all contributions to be taken during joining window and opt-out period which is simple to communicate on the payment schedule.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimal administrative burden of employer processing refunds from schemes in all cases irrespective of when in the month the jobholder is automatically enrolled and when they choose to opt out.</li> <li>• Minimal burden of refund from employer to jobholder as can refund from existing funds in all cases.</li> <li>• Removes administrative burden and investment risk from schemes in all cases irrespective of when in</li> </ul>	<ul style="list-style-type: none"> <li>• Potential risk to individual saving as the maximum time contributions can be held by the employer is one hundred and three days.</li> </ul>

Table W: Options for changes to the nineteen day rule			
Options	Operational impact	Minimising employer/scheme burdens	Maximising individuals' saving
		the month the jobholder is automatically enrolled and when they choose to opt-out.	

84. **The chosen option is to change the payment due date to the 19<sup>th</sup> day of the second month following the automatic enrolment date.** This allows one due date for all contributions deducted during the joining window and opt-out period which is simple to record on payment schedules and more efficient for TPR to refer to if compliance action is required. The automatic enrolment date is a fixed date that is not dependent on the employer complying with other aspects of the duties in order to trigger it. Therefore contributions will be due in all cases following automatic enrolment and TPR can take action to pursue those contributions without having to achieve compliance in another area first. This option also minimises the additional length of time between the employer retaining contributions before passing them to the scheme.

## Glossary

Active membership	The definition will be in accordance with individual scheme rules. Each scheme will have a defining action that will create active membership for a member. For personal pensions active membership will be achieved once the contract is deemed (see deeming the contract below). For the purposes of re-enrolment active membership is defined by regulation 14(4).
Automatic enrolment	Employers will be required to make arrangements by which eligible jobholders become active members of an automatic enrolment scheme with effect from the automatic employment date. Automatic enrolment is not applicable if the jobholder is an active member of a qualifying scheme on that date.
Automatic enrolment date	<p>The automatic enrolment date will be the start date of the joining window, which also becomes the effective date of active membership, once the joining process has been completed. The automatic enrolment date will be triggered by:</p> <ul style="list-style-type: none"> <li>• The employer’s staging date during implementation;</li> <li>• The first day on which the jobholder starts work and meets the jobholder criteria (post implementation); and</li> <li>• Meeting the jobholder criteria whilst in work by either: <ul style="list-style-type: none"> <li>○ reaching age 22 (in receipt of qualifying earnings);</li> <li>○ having qualifying earnings for the first time (aged 22 to pensionable age).</li> </ul> </li> </ul>
Automatic enrolment scheme	A qualifying scheme (see below) where the rules have no restrictions on membership and does not require the jobholder to express a choice or provide information in order to become or remain an active member.
Automatic re-enrolment	Requires employers every three years from the employer’s staging date to repeat the automatic enrolment process in respect of eligible jobholders who after staged implementation have opted out of pension saving during the one month opt out period or at any stage after the end of that period left pension saving. There are exceptions to the minimum three years.
Certification	A process by which employers offering money purchase schemes and some hybrid schemes under the employer duty can assure themselves that their scheme meets the necessary quality requirements.
Compliance regime	A set of powers and processes exercisable by the Pensions Regulator, which have the ultimate goal of maximising compliance with the employer duties and employment safeguards set out in the Pensions Act 2008.
Common Commencement Dates (CCDs)	Bringing in new legislation affecting business in April and October of every year.

Continuity of scheme membership	Employers are required to maintain a jobholder's active membership of a qualifying scheme, while they are in that employment unless the jobholder chooses to end their membership.
Day one / Day one duties	See automatic enrolment date.
Defined benefit (DB) scheme	An occupational pension scheme under which all of the benefits that may be provided accrue at a defined rate and total benefits can be calculated in advance of drawdown.
Defined contribution (DC) scheme	Occupational or personal pension schemes where contributions made into the scheme are invested into one or more investment funds. Some times known as money purchase schemes (see the definition of money purchase schemes for more details).
Employers	Employer in relation to a worker, means the person by whom the worker is employed (see full definition in section 88 of Pensions Act 2008).
Employee representatives	A recognised independent trades union or body representing employees.
Group Personal Pensions (GPP)	An arrangement made by employer for employees to participate in a personal pension arrangement. Each employee has an individual contract with the pension provider. Currently, the employer may or may not make a contribution on behalf of the employee. The employer may also pay the employee's contribution direct from his salary through direct payment arrangement.
Group Self Invested Personal Pension (GSIPP)	A group personal pension where the contracts are SIPPs rather than personal pensions (see SIPP definition).
Gross Domestic Product (GDP)	A measure of economic activity in a country. It is calculated by adding the total value of a country's annual output of goods and services.
Gross National Product (GNP)	A measure of economic activity. It is the value of all goods and services produced in a country in one year, plus income earned by its residents abroad, minus income payable to non-residents.
Hybrid schemes	A hybrid scheme has been defined as an occupational pension scheme that is not purely DB or purely DC.
Impact Assessment	Impact assessment is part of the policy making process that sets out the rationale for a proposed Government intervention of a regulatory nature and identifies the future economic and social consequences in the public, private and third sectors.
Implementation	Implementation refers to the staging and transitional arrangements following the launch of automatic enrolment, to help employers and the delivery authorities to adjust gradually to the reforms.
Jobholders	A worker who is working or ordinarily works in Great Britain under a contract of employment, who is aged at least 16 and under 75 and has gross earnings over £5,035 (in 2006/07 terms).

Large firm	For statistical purposes, the Department for Business, Innovation and Skill usually defines a large firm as one with 250 or more employees.
Median	The median of a distribution divides it into two halves. Therefore half the group are above the median value and half below.
Medium firm	For statistical purposes, the Department for Business, Innovation and Skill usually defines a medium firm as one with between 50 and 249 employees.
Micro firm	For statistical purposes, the Department for Business, Innovation and Skill usually defines a micro firm as one with between 1 and 4 employees.
Money purchase scheme	Benefits provided under a pension scheme, the rate or amount of which is calculated by reference to an amount available for the provision of benefits to or in respect of the member. Sometimes referred as a defined contribution scheme.
Nineteen day rule	The prescribed period outlined in the Occupational Pension Schemes (Scheme Administration) Regulations 1996 and the Personal Pensions (Payments to Employers) Regulations 2000 that sets the due date for employee contributions deducted from salary to be paid over to the scheme. Currently this is nineteen days from the beginning of the month following deduction.
Non-UK pension scheme	A pension scheme, either DB, DC or hybrid, that has its main administration somewhere other than in the UK.
Occupational pension scheme	A person scheme set up in trust by an employer for their staff. Can be either defined benefit, hybrid or defined contribution.
Opt-in	A new right under the Pensions Act 2008. An jobholder who is not eligible for automatic enrolment may by notice require the employer to arrange for them to become an active member of a scheme.
Opt-out	Once active membership has been achieved and the jobholder is in receipt of the enrolment information, the jobholder has a right to opt-out of active membership and will be treated as having never been a member of the scheme.
Opt-out period	A jobholder who has been automatically enrolled into a qualifying scheme may give notice to opt-out of membership within one month from the completion of the joining processes.
Pay As You Earn (PAYE)	A method of paying income tax. The taxpayer's employer deducts tax from their wages or occupational pension before paying these wages, and passes these contributions over to HMRC. In order to do this, the employer must have a PAYE scheme set up. Wages includes sick pay and maternity pay.

Pensions (Automatic Enrolment) Regulations 2009	The draft Pensions (Automatic Enrolment) Regulations set out the prescribed practical arrangements underpinning automatic enrolment, including information flows between employers, pension schemes and jobholders, the arrangements for postponement of automatic enrolment and the arrangements should a jobholder choose to opt out (including the refund rules). These have now been subsumed within the draft Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010.
Pensions Regulator (TPR)	UK regulator of work-based pension schemes.
Pensionable pay	The pay on which pension contributions are calculated.
Personal Accounts Delivery Authority (PADA)	The Personal Accounts Delivery Authority (PADA) is a non-departmental public body (NDPB) accountable to Parliament and reporting, through a Board, to the Secretary of State for the Department for Work and Pensions.  It is responsible for setting up the national, trust-based pension scheme called Personal Accounts.
Personal Accounts (PA) scheme	A new simple, low-cost, defined contribution, occupational pension scheme. To be established by the Secretary of State under section 67 of the Pensions Act 2008 to enable employers, who wish to use it, to fulfil their duties.
Personal Pension	A contractual arrangement between an individual and a pension provider (such as an insurance company) which enables the individual to make provision for a pension on a defined contribution basis.
Qualifying earnings	An earnings band of £5,035 to £33,540 per annum (in 2006/07 earnings terms), on which pensions contributions will be calculated for money purchase schemes. Earning qualifying earnings (i.e. above £5,035) is a criterion of jobholders and is a factor in determining whether a worker is to be automatically enrolled.
Qualifying schemes	Qualifying schemes are pension schemes that meet a minimum standard for the level of contributions made to the scheme or the level of benefit provided. There are different quality standards depending on whether the scheme is DB, DC, or hybrid.
Registration	The formal process by which employers will provide information to the Regulator about how they have met their enrolment duties.
Re-registration	The process of obtaining compliance information from employers every three years.
Record keeping	The creation and retention of records of activities undertaken by employers, the trustees and managers of occupational schemes and pension providers, in relation to the employer duties.
Self-invested Personal Pension (SIPP)	An arrangement which forms all or part of a personal pension scheme, which gives the member the power to direct specifically how some or all of the member's contributions are invested (as opposed to simply choosing a fund or funds).

Small firm	For statistical purposes, the Department for Business, Innovation and Skill usually defines a small firm as one with 49 or fewer employees.
Staged approach / Staging	The employer duties will be implemented in stages over a period rather than from a single launch date.
Stakeholder Pension	Stakeholder pensions are a type of personal pension. They have to meet certain government standards to ensure they are flexible and have a limit on annual management charges
Transitional arrangements / Phasing	The gradual introduction of employer contribution costs. For employers staged in on October 2012, they will have three years at 1 per cent, until the end of staging, when everyone goes up to 2 per cent in Oct 2015 and to 3 per cent a year later which will be steady state. Jobholders may choose to contribute more, although employers will not be required to match any voluntary contributions. Phasing contributions is not appropriate for defined benefit schemes, which must comply with minimum funding requirements at all times.
Transitional period: DB schemes	The period in which defined benefit schemes (and hybrid schemes) are exempt from phasing in contributions or activating membership of existing members for a period prescribed in regulations
Transitional period: DC schemes	See transitional arrangements.
Worker	An individual who has entered into work under a contract of employment or any other contract by which the individual undertakes to do work or perform services personally for another party to the contract.
Worker without qualifying earnings	A individual who is ordinarily working in Great Britain under a contract, who is aged at least 16 and under 75 and has gross earnings less than £5,035 (in 2006/07 terms).
Workplace personal pension (WPP)	An umbrella term covering Group Personal Pensions, Group Self-Invested Personal Pensions and Stakeholder Pensions.