

Summary: Intervention & Options

Department /Agency: DWP	Title: Impact Assessment of Pension (Automatic Enrolment) Regulations 2009	
Stage: Consultation	Version: Consultation stage	Date: 12 March 2009
Related Publications: 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/pensionsreform/>

Contact for enquiries: Daphne White

Telephone: 020 7962 8328

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 are less likely to be saving in a private pension than other income groups. There are a number of barriers which prevent people from making a decision to start saving and these affect moderate to low earners in particular: many have a poor understanding of pensions and the need to save, inertia can prevent people from saving even when they are aware they need to do so, the traditional route to retirement is occupational pension provision and this is in long term decline, and personal pension providers do not actively target this group because they struggle to recoup high upfront selling costs.

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 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 could have a positive social welfare impact of £40 billion from 2012 to 2050, and a potential 0.2 per cent rise in Gross National Product in the long run.

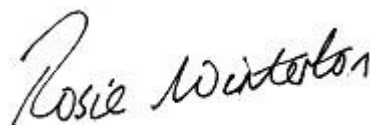
What policy options have been considered? Please justify any preferred option.

The Pensions Act 2008 gives the Secretary of State the power through regulations to ensure that employers automatically enrol eligible jobholders into qualifying workplace pension saving. The measures set out in the consultation document and draft regulations should greatly improve retirement incomes. Inaction could lead to future 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.

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: 12 March 2009

Summary: Analysis & Evidence

Policy Option:	Description:
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs 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.
	One-off (Transition) Yrs	
	£ 0.3 billion 1	
	Average Annual Cost (excluding one-off)	
	£ 10-15 billion	Total Cost (PV) £ 200-250 billion
Other key non-monetised costs by 'main affected groups' Compliance and related costs (commercially sensitive).		

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits 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.
	One-off Yrs	
	£ 0	
	Average Annual Benefit (excluding one-off)	
	£ 10-15 billion	Total Benefit (PV) £ 200-250 billion
Other key non-monetised benefits 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	Net Benefit Range (NPV) £ 0-5 billion resource cost, £40 billion social welfare benefit.	NET BENEFIT (NPV Best estimate) £ 3 billion resource cost, £40 billion social welfare benefit.
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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)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">Micro £70</td> <td style="width: 25%; text-align: center;">Small £80</td> <td style="width: 25%; text-align: center;">Medium £220</td> <td style="width: 25%; text-align: center;">Large £1,120</td> </tr> </table>	Micro £70	Small £80	Medium £220	Large £1,120
Micro £70	Small £80	Medium £220	Large £1,120		
Are any of these organisations exempt?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">N/A</td> <td style="width: 25%; text-align: center;">N/A</td> </tr> </table>	No	No	N/A	N/A
No	No	N/A	N/A		

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £ 2.2 million	Decrease of £ 0	Net Impact £ 2.2 million

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

Evidence Base (for summary sheets)

1. Impact Assessment for the consultation stage of Pensions (Automatic Enrolment) Regulations 2009.

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 train 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 worked hard to build a broad-based consensus amongst political parties, the public, businesses and the pensions industry to ensure these reforms can stand the test of time.
6. The Government believes, and is supported by the consensus, 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 save¹.
7. The current economic downturn is likely to have adverse impacts on public confidence in financial products and in employers' and employees' willingness and ability to save in the form of workplace pensions. The Department for Work and Pensions (DWP) believe that over the longer term the rationale for increased pension saving will become even stronger. However we will continue to assess the anticipated impact of these reforms in the light of developments including the evolving economic conditions.

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

Overall effect of pension reform

8. The May 2006 and December 2006 White Papers and previous Impact Assessments, consultation and now the Pensions Act 2008 have set out the policies for pension reform in 2012. The consultation document and draft regulations, which this Impact Assessment accompanies consults on the first set of automatic enrolment regulations to be made under the Pensions Act 2008.
9. In general, the duty on employers to automatically enrol jobholders into a qualifying workplace pension arrangement and make minimum contributions will lead to an increase in aggregate 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, and it is estimated² that:
 - approximately 670,000 employers currently offer no provision and so will need to offer a qualifying workplace pension arrangement and enrol all jobholders;
 - approximately 240,000 employers currently offer some provision but make less than a 3 per cent employer contribution. These employers will need to increase their contribution rate in their existing scheme and ensure it meets the quality requirements or open an alternative qualifying workplace pension scheme; and
 - approximately 300,000 employers offer a contribution greater than 3 per cent. These employers will need to extend their provision to ensure that all jobholders have access to the minimum employer contribution.
10. Some employers may also choose to contribute more than the minimum, recognising contributions to a pension scheme as a useful recruitment and retention tool. However, some employers may wish to offset part of the increased cost of providing contributions for more workers by reducing their current contribution rate. It is difficult at this stage to estimate the scale of these possible effects; but the latest evidence suggests that 86 per cent of employers offering more than the minimum requirement of 3 per cent do not plan to reduce their contribution once the reforms are implemented³.
11. 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 social welfare gains to society⁴. These benefits arise because most people value consumption more highly in times, such as retirement, when they can afford it less.
12. DWP also commissioned independent research into individuals' and employers' attitudes and likely reactions to these reforms, comprising nationally representative surveys of almost 2,400 private sector employers and over 750 workers who would be eligible for automatic enrolment. These surveys represent the latest available data and revealed strong and broad-based support for automatic enrolment and a minimum employer contribution⁵, where:

² DWP internal analysis of Small and Medium-sized Enterprise Statistics 2006 and 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 and Bolling K, Grant C, Fitzpatrick A and Sexton M, 2006, Employer attitudes to personal accounts: Report of a quantitative survey, DWP Research Report No 397.

³ 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.

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

⁵ 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

- 64 per cent of individuals were in favour of automatic enrolment. People see this as a good way to overcome decision-making inertia and encourage people to save for their retirement; and
 - 91 per cent of individuals found the idea of an employer contribution attractive. People see an employer contribution as an important incentive to save.
13. The Government's reform programme places employers at the heart of pension provision. Many employers in the UK are already making a substantial contribution to their own pension schemes and so are supporting their employees in saving for retirement. The Government's policies already support this in many ways and the reform package contributes to this. However, for the reforms to be successful, those employers who do not already provide pensions must also play a role.
 14. The Government's proposals for automatic enrolment with a minimum employer contribution and the introduction of the personal accounts scheme have been welcomed by employers' groups as necessary measures to safeguard against pensioner poverty and to promote private saving. In particular, 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 saving wealth will benefit the economy as a whole. The latest available data 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 idea⁶.
 15. In addition to the formal consultation that followed the publication of the May 2006 and December 2006 White Papers, Ministers and officials at DWP have regularly met representatives of the pensions industry, employers, and consumer groups to explain and consult on the policies outlined in the Pensions Act 2008.
 16. The Government 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. As 2012 approaches, these estimates will continue to be updated in light of new evidence received.
 17. An assessment of employer costs and benefits arising from these regulations are detailed below.

Effect of Pensions (Automatic Enrolment) Regulations 2009

18. The Pensions Act 2008 gives the Secretary of State the power through regulations to ensure that employers automatically enrol eligible jobholders into qualifying workplace pension saving. The proposals are set out in the consultation document and draft regulations, which this Impact Assessment supports⁷, and aims to minimise the burden placed on employers, individuals and the pensions industry.
19. These regulations set out the arrangements underpinning automatic enrolment, including the flow of information from employers to their employees, deduction of contributions,

N and Harvey P, 2006, Public attitudes to personal accounts: Report of a qualitative study, DWP Research Report No 370.

⁶ 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.

⁷ This document can also be found in Annex C of the consultation document

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

arrangements for individuals to opt-out of workplace pension saving and receive refunds of any contributions that may have been taken, and finally the arrangements by which some employers can postpone automatic enrolment provided they offer more generous pension provision to their workers. A further set of regulations covering the remaining elements of the employer duty will be consulted on in Autumn 2009.

20. The analysis of the effect of these regulations is consistent with the findings presented in the Pensions Bill – Impact Assessment (published April 2008).
21. These estimates of employer costs are not in addition to costs that were previously published; rather they are a subset of those costs which have been updated to reflect the latest policy developments. Therefore these estimates are consistent with, but not directly comparable to those previously published. To estimate the total cost arising from the Pensions Act 2008 the costs of these regulations will be added to the cost of a further set of regulations which are due for consultation in Autumn 2009.
22. The administrative costs⁸ to employers of complying with these regulations are estimated to be £152 million in the first year and £98 million each year thereafter.
23. The benefits of these regulations arise from the overall social welfare benefits of pension reform. These reforms are designed to enable and encourage more people to accumulate private pension income for retirement and should result in consumption smoothing⁹. 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.

Calculation of estimates

24. This section explains the background to the analysis of the number of individuals and cost to employers.
25. There remains a degree of uncertainty about the number of new savers that will result from these reforms and where they will be saving. This will depend on the trends in pension provision between now and 2012 and the future responses of employers and individuals to the introduction of these reforms. For this reason estimates may be presented as broad ranges.
26. The working assumptions for participation in workplace pension schemes following reform remain the same as those presented in the Pensions Bill - Impact Assessment (published April 2008)¹⁰. Following the introduction of pension reforms it is estimated that there will be:
 - 6-9 million people newly participating or saving more in workplace pensions;
 - 4-8 million new savers in workplace pensions;
 - 4-7 million individuals participating in personal accounts; and

⁸ Employer administrative costs are defined as the additional costs of administrative activities that businesses are required to conduct in order to comply with the obligations that are imposed through central government regulation. DWP has modelled these costs in detail on the basis of survey and other evidence – this modelling work is the source of all the cost estimates referred to in this Impact Assessment.

⁹ 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).

¹⁰ The methodology behind participation estimates is detailed in Annex F of the Pensions Bill - Impact Assessment (published April 2008).

- 1-2 million additional people saving or saving more in existing pension schemes.

Note:

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

27. As the working assumptions for participation in workplace pension schemes remain the same as previously published; there is no change to the estimations of the total additional cost of contributions to be made by employers. These are approximately £2.5 billion¹¹ per year once employers are required to make contributions of at least 3 per cent under the Pensions Act 2008. If employers choose to make contributions above the statutory minimum level, it can be assumed that these employers anticipate a benefit from the additional contributions that outweighs the costs of making them.
28. Any contribution costs incurred by the employers are considered transfers to individuals and so do not represent a net cost or benefit to the economy as a whole.
29. 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 for employers resulting from the policy detail contained in the draft regulations published alongside this document. In order to estimate the costs, consideration has been given to the activities involved, who will carry out the activity, how frequently, how much they get paid and how long it will take¹².
30. In estimating these costs it is assumed that all employers comply with the regulations. Any additional costs incurred by business as a result of non-compliance or failure with the duties have not been included.

Estimated costs

31. The following tables present estimates of the employer administrative costs associated with these regulations.

Table 1.1: Employer administrative cost, by scheme type (£ million)		
	Year 1 cost	Ongoing cost in future years
Employers using an existing scheme	28	9
Employers using a new scheme	124	90
Total costs	152	98

Source: DWP modelling.

Notes:

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

32. 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. It is estimated that five times¹³ as many employers will set up a new scheme as those who will

¹¹ Detailed analysis of contribution costs can be found in Chapter 2 of the Pensions Bill – Impact Assessment (published April 2008).

¹² The methodology behind administrative cost estimates is detailed in Annex G of the Pensions Bill - Impact Assessment (published April 2008).

¹³ DWP modelling.

use an existing scheme. 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 1.1 illustrates total administrative cost to firms using existing schemes and the cost to firms using a new scheme to fulfil their duties.

33. Table 1.2 shows a break down of employer administrative costs for these regulations by firm size¹⁴. The overall costs are lower for large firms, even though costs per firm are higher, as there are far fewer large firms (around 6,000 compared with 800,000 micro firms).

Table 1.2: Employer administrative cost, by firm size (£ million)		
	Year 1 cost	Ongoing cost in future years
Large firms (250 or more employees)	28	7
Medium firms (50-249 employees)	13	6
Small firms (5-49 employees)	43	28
Micro firms (1-4 employees)	69	58
Total costs	152	98

Source: DWP modelling.

Notes:

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

Table 1.3: Average administrative cost per employee, by firm size			
	Number of employees	Cost in Year 1 (£)	Ongoing cost in future years (£)
Large firms	3,400,000	10	2
Medium firms	1,282,000	10	4
Small firms	2,402,000	20	10
Micro firms	1,084,000	60	50
All firms	8,169,000*	20*	10*

* 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;
- Some figures may not sum due to rounding.

34. Table 1.3 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 pension scheme, and on average have lower

¹⁴ 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.

participation rates in existing schemes¹⁵, 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 reforms across a greater number of employees, as well as benefiting from economies of scale.

35. The ongoing annual administrative burden of these regulations is estimated to be £2.2 million¹⁶. 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. This estimate is smaller than the estimate published in the Pensions Bill - Impact Assessment (published April 2008). There are likely to be information obligations in a further set of regulations. Some of those regulations may relate to the processes that have been costed in these regulations, meaning that these processes would then constitute an administrative burden.

Impact on employers

36. This section identifies the impact on employers arising from these regulations.
37. The Government's aim in developing these regulations has been to minimise the overall employer burden whilst also ensuring that the needs of savers are protected. This has been achieved by providing for the overall automatic enrolment and opt-out processes to be carried out relatively quickly and therefore minimising the need for refunds, both from employers to individuals and from schemes to employers. DWP believe 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.
38. These regulations will ensure that employers automatically enrol eligible jobholders into qualifying workplace pension saving. The duty 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 approaches¹⁷. The cost associated with the minimum contribution is estimated to be £2.5 billion per year¹⁸. Employer contributions, at 3% on banded earnings, are equal to 0.6 per cent of total labour costs. Total labour costs include unbanded earnings (between £1 and £5,000; and above £33,540), bonuses, overtime and other employee benefits.
39. Most employers expect to use a range of mechanisms for managing any additional costs of pension reform. DWP research suggests that over one quarter of employers are likely to absorb the increase as part of overhead costs^{19,20}. 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. Employer attitudes will be monitored and DWP will report on this on a regular basis.

¹⁵ Employers' Pension Provision Survey 2007.

¹⁶ DWP modelling.

¹⁷ The burden on employers is mitigated by limiting the band of earnings for which the duty applies and employers will be able to phase in contributions over time. Further details can be found in Chapter 2 of the Pensions Bill – Impact Assessment (published April 2008).

¹⁸ Detailed analysis of contribution costs can be found in Chapter 2 of the Pensions Bill – Impact Assessment (published April 2008).

¹⁹ This may include profits.

²⁰ 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.

40. Changing macroeconomic conditions could affect the way in which the additional costs due to pension reform are borne. However evidence is incomplete and in particular it is difficult to foresee what conditions will look like in 2012. DWP will continue to keep this under review.
41. The Pensions Act 2008 provides a power to defer automatic enrolment; by using a postponement period²¹. The rationale for permitting employers to postpone automatic enrolment is to encourage them to maintain more generous provision by providing a way to manage their costs rather than incurring an immediate increase in costs as a result of the employer duty.
42. An employer will be able to postpone the automatic enrolment of a given employee into a pension scheme for up to three months provided they subsequently automatically enrol the employee into a workplace pension scheme and contribute at least 6 per cent of qualifying earnings²² for a minimum of three months following the postponement period. Employers in sectors with high turnover rates are the most likely to benefit as a result of a postponement period²³. This is not intended to disadvantage individuals (as most will catch-up on contributions following postponement) but is intended to aid employers offering good schemes, which in turn will benefit their employees' pension pot.

Impact on small firms

43. Most of the 1.2 million private sector enterprises in the UK are small and almost all new firms created each year are small businesses. Small enterprises, with less than 50 employees represent 97 per cent of private sector enterprises and 37 per cent of private sector jobs²⁴.
44. Around 60 per cent of micro employers thought the reforms were a good idea and only 24 per cent thought they were a bad idea. Similarly 50 per cent of employers with 5-49 employees thought the reforms were a good idea and only 36 per cent thought they were a bad idea²⁵.
45. However, the Government recognises the challenges faced by small firms and are keen to ensure that such firms are not disadvantaged by the reforms and are able to fulfil their new duties in the same way as larger firms.
46. 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.

²¹ The term 'postponement period' refers to the power under section 4 of the Pensions Act 2008 to defer automatic enrolment and is used in this document in place of the term 'deferral period' which has been used in previously published documents.

²² The employer contribution rate was previously expressed and published in pensionable pay terms. The original analysis on postponement periods has been reviewed and redefined using the latest data, and therefore the contributions levels can now be expressed in terms of qualifying earnings.

²³ DWP modelling.

²⁴ Small and Medium-Sized Enterprise Statistics 2006.

²⁵ 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.

47. The estimated costs of these regulations appear to affect small and micro firms the most, see Table 1.2. It appears this way because there are so many more small and micro employers 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 1.4 below shows the number of firms of each size and an average administrative cost per firm of these regulations. This demonstrates that the average per firm cost is greatest for the 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 250 employees while micro employers have fewer than 5 employees.

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

	Number of firms	Cost in Year 1 (£)	Ongoing cost in future years (£)
Large firms	6,000	4,800	1,100
Medium firms	27,000	500	200
Small firms	371,000	100	80
Micro firms	800,000	90	70
All firms	1,204,000*	100⁺	80⁺

* 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.

48. The Pensions Act 2008 now wholly excludes Worker-Director²⁶ firms from the employer duty implied by these regulations. Latest estimates suggest that this category could include up to 460,000 firms²⁷. This type of firm was included in previous estimates of administrative costs but has now been removed as there will be no administrative requirements on Worker-Director firms.
49. DWP will be engaging with small employers at the appropriate time to help make them aware of the reforms and the point at which they will be required to take action. A research project is currently underway to explore how small employers intend to cope with the employer duty²⁸.
50. DWP will also work with the relevant delivery authorities to ensure systems and processes are fully robust and user-friendly before smaller employers need to use them.

Equality impact of pension reform

51. This document provides detail on regulations for reforms set out in the Pensions Bill – Impact Assessment (published April 2008); equality assessments have been carried out to meet the requirements of the:

²⁶ Worker-Directors pay themselves as a worker for their own company. Where they are the sole worker for their own company they will be excluded from these regulations.

²⁷ Small and Medium-Sized Enterprise Statistics 2007.

²⁸ Research by Ipsos MORI for DWP forthcoming in 2009, Information needs and preferences of small/micro employers.

- gender equality duty²⁹;
- race equality duty³⁰; and
- disability equality duty³¹.

52. The equality assessments previously carried out and published are summarised below.
53. 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 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.
54. 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 these groups are over-represented in the group where automatic enrolment is likely to have the greatest effect. White and BME women are both under-represented in the population of employees earning above the upper threshold of the qualifying requirement and over-represented in the population earning less than lower threshold.
55. 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.
56. The equality assessments will be updated as the reforms are progressed.

Competition effects of pension reform

57. This document provides detail on the regulations for reform set out in the Pensions Bill - Impact Assessment (published April 2008); as such the competition assessment previously undertaken is still valid³².
58. In summary, the introduction of these regulations should not have negative impacts on competition in the pensions, labour and product markets. Instead they will lead to an expansion of the existing market, with an estimated 6-9 million more workers saving or saving more in workplace pension schemes. The expansion of pension provision is likely to make it more profitable to provide pensions to small firms as the participation and contribution rates within these firms are likely to increase.
59. In 2008 DWP received written clarification from the European Commission that they agree with our view that from 2012, under the new employer duties in the UK, automatic enrolment into workplace personal pensions (WPPs) is outside the scope of the Distance Marketing Directive and the Unfair Commercial Practices Directive. Employers with

²⁹ A detailed gender assessment can be found in Annex C of the Pensions Bill – Impact Assessment (published April 2008).

³⁰ A detailed race assessment can be found in Annex D of the Pensions Bill – Impact Assessment (published April 2008).

³¹ A detailed disability assessment can be found in Annex E of the Pensions Bill – Impact Assessment (published April 2008).

³² A detailed competition assessment can be found in Annex B of the Pensions Bill – Impact Assessment (published April 2008).

qualifying workplace personal pension arrangements will therefore be able to use these to automatically enrol new members as well as continuing with these arrangements for existing members.

Summary

60. The Pensions Act 2008 gives the Secretary of State the power through regulations to ensure that employers automatically enrol eligible jobholders into qualifying workplace pension saving. The proposals are set out in the consultation document and draft regulations, which this impact assessment supports, and aims to minimise the burden placed on employers, individuals and the pensions industry.
61. DWP's latest estimates of the costs and benefits of regulations that underpin the Pensions Act 2008 have been updated to reflect policy developments since the Pensions Bill – Impact Assessment (published April 2008).
62. The current economic downturn is likely to have adverse impacts on public confidence in financial products and in employers and employees willingness and ability to save in the form of workplace pensions. DWP believe that over the longer term the rationale for increased pension saving will become even stronger. However we will continue to assess the anticipated impact of these reforms in the light of developments including the evolving economic conditions.
63. The reforms outlined give rise to large transfers of income from individuals' working lives 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.
64. In general, the duty on employers to automatically enrol jobholders into a qualifying workplace pension arrangement and make minimum contributions will lead to an increase in aggregate contribution and administrative costs.
65. Most employers expect to use a range of mechanisms for managing any additional costs of pension reform. In order to help employers with this process, these regulations have been designed to mitigate the risks associated with pension reform for employers, individuals and the pensions industry where possible.
66. There is no change to the previously published employer contribution estimates. Thus this document presents changes to the administrative costs as a result of the employer duty specified by these regulations. The latest estimates of the administrative costs of these regulations are £152 million in the first year and £98 million each year thereafter. To estimate the total cost arising out of Pensions Act 2008 the costs of these regulations will be added to the cost of a further set of regulations which are due for consultation in Autumn 2009.
67. The latest estimates show that in these regulations administrative costs 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. The Pensions Act 2008 excludes up to 460,000 Worker-Director firms from the employer duty implied by these regulations. Further, research is currently underway to explore how small firms intend to cope with pension reform.
68. The proposals set out 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, these reforms are likely to have a larger positive impact on black and minority ethnic (BME) 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.

69. The introduction of these regulations should not have negative impacts on competition in the pensions, labour and product markets. The expansion of pension provision is likely to make it more profitable to provide pensions to small firms as the participation and contribution rates within these firms are likely to increase.
70. An Impact Assessment for a further set of regulations will be published in Autumn 2009 alongside an update for these regulations, with the relevant costs and benefits analysis.

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