Regulatory Impact Assessment:

The Pensions (Extension of Automatic Enrolment) Bill

Title: **Pensions (Extension of Automatic Enrolment) Bill**	**Regulatory Impact Assessment**
	Date: 8 April 2024
	Type of measure: Primary Legislation
Lead department or agency: **Department for Communities**	**Stage: Final**
	Source of intervention: Domestic NI
Other departments or agencies: **Department for Work and Pensions**	**Contact details:** Richard Jordan
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Summary Intervention and Options

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

Although pensions are a devolved matter, in general Northern Ireland's (NI) pensions policy and legislation operate in line with corresponding pension provision in Great Britain (GB) in accordance with section 87 of the NI Act 1998. In effect there is a single pension system and regulatory regime across the United Kingdom (UK). Therefore the analysis of the potential impact has been undertaken based on the available UK data.

Background

Automatic enrolment (AE) into workplace pensions was introduced in 2012 to enable more people to save for their retirement and to make saving the norm for most people in work. AE was phased-in between October 2012 and February 2018. Minimum contribution rates were also phased-in, reaching their full amount, 8% of earnings, in April 2019. Employers contribute a minimum 3% and employees 5%,

part of which includes tax relief. The law requires employers to enrol all their eligible workers into a qualifying workplace pension scheme and pay pension contributions.

Eligible workers are those who:

- are not already in a workplace pension scheme;
- are between age 22 and State Pension age; and
- earn more than the minimum earnings threshold (£10,000 per year) since 2015/16).

Contributions are required to be made on a band of qualifying earnings. The lower earnings limit (LEL) of the qualifying earnings band is £6,240 and the upper earnings limit (UEL) of the qualifying earnings band is £50,270. Unless they opt out, employees will build up a private pension through their contributions and those of their employer.

Workers can also ask to join an employer's scheme and must be enrolled within one month of such a request being received by the employer. In such instances employers will have to make employer contributions if the worker is:

- aged 16-74; and
- earns at least £520 a month or £120 per week.

Workers can choose to opt out. Where they remain in the scheme, minimum contributions must be made on income within the qualifying earnings band.

In GB in the statutory review of AE in 2017[1] ("the 2017 review") the Westminster Government committed to introducing change to AE in the mid-2020s in respect of the eligibility criteria for AE relating to age and qualifying earnings for savers. However the current AE legislative framework does not allow the eligibility criteria for AE relating to age or qualifying earning for savers to change.

Primary legislation to amend the Pensions (No.2) Act (Northern Ireland) 2008 and the Pensions Act 2008 is required to provide regulation making powers to provide for changes to the minimum age for AE and the reduction or abolition of the LEL.

[1] Automatic Enrolment Review 2017: Maintaining the Momentum
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/668971/automatic-enrolment-review-2017-maintaining-the-momentum.PDF

In GB, following the outcome of the 2017 review, the Pensions (Extension of Automatic Enrolment) Act 2023 ("the GB Act") was enacted on 18 September 2023. The GB Act gives regulation making powers to the Secretary of State for Work and Pensions to lower the age at which qualifying workers are automatically enrolled into a workplace pension and to reduce or abolish the LEL of the qualifying earnings band contained in the Pensions Act 2008. It is envisaged that GB subordinate legislation arising from the Act would come into effect in the next Parliament.

The NI Assembly Bill, the Pensions (Extension of Automatic Enrolment) Bill ("the Bill") would make similar provision in respect to NI. The Bill once enacted would give the Department the power to make regulations which would implement these changes to AE. Subordinate legislation would then be required to be taken through the Assembly in order to implement the changes in NI

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

Option 1 – do nothing

The current position is as described above. AE has been shown to be effective in addressing pension under-saving. The policy objectives outlined in the previous section extend AE, however these cannot be achieved via the do nothing option.

Option 2 - Take Legislative Powers to reduce or abolish the LEL and Lower the Age Threshold for AE.

The legislative option under consideration here would enable an update to the targeting of AE to ensure that its benefits are applied to the most appropriate audience building on the 2017 review. These changes would remedy constraints in the original legislative framework, allowing appropriate flexibility now that the initial implementation period has concluded.

Option 3 - Non-legislative option: encouraging the adoption of a zero LEL and enrolment from age 18.

Consideration is also given to the non-legislative option of encouraging employers to voluntarily adopt the intended policy of making contributions to workplace pensions from the first pound earned and making those contributions from the age of 18.

Option 2 is found to be the preferred option.

Reducing the lower age limit age to 18 would re-align the lower age with the National Minimum Wage (NMW) age criteria (ages 18 to 20) thereby providing consistency, removing the arbitrary age 22 assessment and simplifying processes for most employers who would not have 16 to 17 year olds as part of their workforce.

Removing the LEL would mean that pension contributions would be made from the first pound earned, thereby increasing total pension saving and simplifying contribution calculations both for employers and individuals. Reducing, rather than removing the LEL, would mean that contributions would start at the new LEL. This would have the effect of increasing pension savings as contributions would be paid from the new LEL. However the impact on pension savings by lower earners and those in multiple jobs would be less than if the LEL was removed altogether.

These proposed changes would continue to normalise pension saving among workers; help lower earners build resilience for retirement; support individuals, in multiple part-time jobs; and simplify AE for employers.

Will the policy be reviewed? It will not be reviewed.

If applicable, set review date: N/A

Table 1	**Cost of Preferred Option**			
Total outlay cost for business £m	**Total net cost to business per year** £m		**Annual cost for implementation by Regulator** £m	
	N/A		N/A	
Does Implementation go beyond minimum EU requirements?			**N/A**	
Is this measure likely to impact on trade and investment?			**N/A**	
Are any of these organisations in scope?	**Micro** Yes ☒ No ☐	**Small** Yes ☒ No ☐	**Medium** Yes ☒ No ☐	**Large** Yes ☒ No ☐

Approved by David Tarr **Date:** 25 April 2024
Director of Social Security Policy and Legislation

Summary: Analysis and Evidence Policy Option 1

Description: Option 1 - Do nothing

ECONOMIC ASSESSMENT

Table 2					
Price Base Year 22/23	PV Base Year 22/23	Time Period 30 Years	Net Benefit (Present Value (PV)) £m		
			Low: 0	**High**: 0	**Best Estimate**: 0

Table 3				
COSTS (£m)	**Total Transitional** (constant price)	Years	**Average Annual** (excl. transitional) (constant price)	**Total Cost** (Present Value)
Low	**Optional**		**Optional**	**Optional**
High	**Optional**		**Optional**	**Optional**
Best Estimate	**0**		**0**	**0**

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

Doing nothing is estimated to have zero impact. Total pension contributions due to the current AE design are estimated to be £1,487bn over 30 years (or £69bn in year 1 of the policy). Of this, employer contributions total £882bn (£41bn), employee contributions total £431bn (£20bn), and income tax relief on employee contributions totals £174bn (£8bn).

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

The costs of AE are unlikely to change as a result of 'Do Nothing'. Employers may have responded to the increased cost of employer contributions after AE implementation by reducing their spending in other areas – though evidence suggests a majority absorbed the cost with other overheads. Employers passing on the costs may drive second-order fiscal costs (less tax and NICs revenue).

Table 4				
BENEFITS (£m)	**Total Transition** (constant price)	Years	**Average Annual** (excl. transitional) (constant price)	**Total Benefit** (Present Value)
Low	**Optional**		**Optional**	**Optional**
High	**Optional**		**Optional**	**Optional**
Best Estimate	**0**		**0**	**0**

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

Total pension saving increases by £1,487bn (£69bn in year 1 of the policy) due to current AE policy design. This will not change under a 'Do Nothing' option. This will help support millions of people in retirement.

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

The social welfare impact of the original AE policy from 2012-2050 was originally estimated at £40bn in 2006 prices. This will stay the same under a 'Do Nothing' option. All pension saving promises a significant future fiscal benefit as people spend more in later life than they would have otherwise done.

Key Assumptions, Sensitivities, Risks (Discount rate 3.5%)

The modelling assumes that amongst those who have been automatically enrolled, the existing private sector pension participation rate will continue long term.

BUSINESS ASSESMENT (Option 1)

Table 5			
Direct Impact on business (Equivalent Annual) £m			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: 0	**Benefits: 0**	**Net: 0**	**0**

Summary: Analysis and Evidence **Policy Option 2**

Description: Option 2 – Take Legislative Powers to abolish the LEL and Lower Age Threshold for AE.

ECONOMIC ASSESSMENT

Table 6					
Price Base Year 22/23	PV Base Year 22/23	Time Period 30 Years	Net Benefit (Present Value (PV)) £m		
			Low: N/A	**High**: N/A	**Best Estimate**: N/A

Table 7				
COSTS (£m)	**Total Transitional** (constant Price)	Years	**Average Annual** (excl. transitional) (constant price)	**Total Cost** (Present Value)
Low				
High				
Best Estimate	**N/A**		**N/A**	**N/A**

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

The legislation will not result in any immediate costs/benefits. However, if the powers were used to implement the proposals set out in the 2017 review, total pension contributions could increase by £45bn over 30 years (£2.0bn in year 1). Of this, employer contributions are expected to total £19bn (£0.8bn in year 1), employee contributions total £21bn (£0.9bn in year 1), and income tax relief on employee contributions totals £5bn (£0.2bn in year 1).

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

If implemented, the second-order fiscal effects that could be incurred are estimated to be in the range of £3.9bn (£0.2bn in year 1). There could also be an additional administrative and familiarisation cost facing business of £0.2bn (£10m in year 1).

Table 8				
BENEFITS (£m)	**Total Transition** (constant price)	Years	**Average Annual (recurring)** (excl. transitional) (constant price)	**Total Benefit** (Present Value)
Low				
High				
Best Estimate	**N/A**		**N/A**	**N/A**

Description and scale of key monetised benefits by ‘main affected groups’

If implemented, total pension contributions could increase by £43bn (£2.0bn in year 1). This would help support millions of people in retirement.

Other key non-monetised benefits by ‘main affected groups’

If implemented, these measures could realise an additional social welfare benefit of £17.9bn over 30 years starting 2022/23. Further social welfare benefits would accrue beyond that. If implemented. The measures could also increase total pension saving via behavioural responses (for example individual earnings under the LEL before the implementation would incentivise opt in as they are now entitled for employer contribution.). The measures may, if implemented, deliver administrative savings via the consolidation and simplification of the various categories of workers under the existing policy.

Key Assumptions, Sensitivities, Risks (Discount rate 3.5%)

Currently, it is not known when the policy changes appraised here will be implemented. As such, all appraisal is done from 2022/23. This year is chosen purely for illustrative purposes. It is not appropriate to submit NPV, BIT or EANDCB values at this stage.

BUSINESS ASSESMENT (Option 2)

Table 9			
Direct Impact on business (Equivalent Annual) £m			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: N/A	**Benefits: N/A**	**Net: N/A**	**N/A**

Summary: Analysis and Evidence Policy Option 3

Description: Option 3 – Non-legislative option: encouraging the adoption of a zero LEL and enrolment from age 18.

ECONOMIC ASSESSMENT

Table 10					
Price Base Year 22/23	PV Base Year 22/23	Time Period 30 Years	Net Benefit (Present Value (PV)) £m		
			Low: 0	**High**: 0	**Best Estimate**: 0

Table 11				
COSTS (£m)	**Total Transitional** (constant Price)	Years	**Average Annual** (excl. transitional) (constant price)	**Total Cost** (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate	**0**		**0**	**0**

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

The estimated impact in this scenario would be the same as the baseline Policy Option 1.

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

The non-legislative option is based on encouraging employers to adopt measures without legislation, and enrol employees from the age of 18 and from the first pound when earning over £10,000 p.a. The estimated change in this option is negligible. The proposed measures were announced in 2017. Therefore, although many employers have already adopted the measures (reflected in the lower costs compared to 2017) it is unlikely at this stage that more would introduce them voluntarily. Participation rates are known to be low among younger cohorts, so there is no expectation that employers would seek to change this voluntarily.

Table 12				
BENEFITS (£m)	**Total Transition** (constant price)	Years	**Average Annual (recurring)** (excl. transitional) (constant price)	**Total Benefit** (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate	**0**		**0**	**0**

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

There is no expectation that employers would seek to change this voluntarily. The estimated change in this option is negligible.

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

The baseline social welfare impact will stay the same under a non-legislative option.

Key Assumptions, Sensitivities, Risks (Discount rate 3.5%)

The modelling assumes that amongst those who have been automatically enrolled, the existing private sector pension participation rate will continue long term.

BUSINESS ASSESMENT (Option 3)

Table 13			
Direct Impact on business (Equivalent Annual) £m			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: 0	**Benefits: 0**	**Net: 0**	**0**

Evidence Base

Introduction

1. AE has transformed pension saving, with over 10.8 million employees automatically enrolled into a workplace pension by January 2023. In NI in 2021, 62% of private sector eligible employees were members of a workplace pension scheme and 73% of eligible employees in NI belonged to a workplace pension scheme . This is an increase of 39 percentage points for private sector employees and 29 percentage points for all employees, since the introduction of AE in 2012.

2. However, there are gaps in coverage, including 18 to 21 year olds and part-time workers earning less than the current earnings threshold.

3. In GB, in the 2017 review, the Westminster Government committed to introducing changes to AE in the mid-2020s by:

   (i) Lowering the age from which otherwise eligible workers must be automatically enrolled into a pension scheme by their employers from 22 to 18.

   (ii) Removing the lower earnings Limit (LEL) from the qualifying earnings band so that contributions are calculated from the first pound earned (rather than the current lower earnings threshold (£6,240 in 2022/23)).

4. Lowering the age threshold will make pension saving the norm for young people and enable them to begin to save from the start of their careers. Removing the LEL will mean more workers would have access to a pension with an employer contribution and greater pension pots, supporting those with low earnings and multiple jobs. If implemented, the removal of the LEL would increase the pensionable earnings that workers and employers pay pension contributions on, growing total pension savings. This would proportionally affect the contributions of lower earners the most.

5. In GB the Pensions (Extension of Automatic Enrolment) Act 2023 (“the GB Act”) was enacted on 18 September 2023. The Act gives regulation making powers

to the Secretary of State for Work and Pensions to lower the age at which qualifying workers are automatically enrolled into a workplace pension and reduce or abolish the LEL contained in the Pensions Act 2008. That legislation extends only to GB. It is envisaged that GB subordinate legislation arising from the Act would come into operation early in the next Parliament.

6. Although pensions are a devolved matter, in general NI's pensions policy and legislation operate in line with corresponding pension provision in GB in accordance with section 87 of the NI Act 1998. In effect there is a single pension system and regulatory regime across the UK. Therefore the proposed NI Assembly Bill, the Pensions (Extension of Automatic Enrolment) Bill ("the Bill") would seek to make similar provision in respect to NI. The Bill once enacted would give the Department the power to make regulations which, subject to Assembly approval, would implement these changes to AE.

Policy Context

7. Being automatically enrolled into a qualifying workplace pension was one of the key recommendations of the independent Pensions Commission, which reported in October 2004 and November 2005.

8. The Pensions Commission looked at the future of retirement saving in the context of declining workplace pension participation and increasing longevity. The Commission recommended AE as a mechanism to bring workers into saving who did not previously have access to a workplace pension. This would be one part of an overall approach to retirement income, with the State Pension and voluntary savings making up the rest.

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

10. The approach was informed by behavioural analysis which showed the beneficial effects of defaulting individuals into pension saving would lead to continued pension saving as many people would not subsequently opt out because of inertia in their subsequent behaviour. In this way the barriers to pension saving presented by individuals' behaviours, in the face of the complexities of pension saving, could be overcome.

11. AE has been targeted at individuals on low to moderate incomes who did not have ready access to the existing private pensions market, but it has been framed in a way that recognises workplace pensions may not make economic sense for some low-paid workers.

12. The core AE duty placed on employers is that they must make arrangements whereby their eligible workers automatically become active members of a qualifying pension scheme and pay certain minimum contributions into the scheme.

13. Workers meet the eligibility criteria and must be automatically enrolled by their employer if they are:

    a) not already an active member of a qualifying workplace pension scheme on the AE date;
    b) at least 22-years-old;
    c) below State Pension age;
    d) earning more than the current earnings trigger (ET) which is £10,000 (in 2022/23) a year (or £833 per month or £192 per week); and
    e) working or ordinarily working in NI/GB (under their contract).

14. There are two additional thresholds to consider for AE:

    - The lower earnings limit (LEL) - The lower limit of the qualifying earnings band sets the minimum amount that people must earn before their employer can start to calculate their pension contributions and include the minimum employer contributions. It therefore determines the lower level of

an enrolled workers' earnings on which they and their employer have to pay contributions. In 2023/24 this is currently £6,240.

- The upper earnings limit (UEL) - The upper limit of the qualifying earnings band caps mandatory employer contributions. In 2023/24, this is currently £50,270.

15. Workers earning £10,000 or less can choose to opt in to a qualifying scheme and will be entitled to an employer contribution if they earn more than £6,240 (the LEL). Automatically enrolled workers can choose to opt out but employers must not seek to persuade people to do so. If workers choose to opt out within the first month of being enrolled, they are entitled to a refund of their contributions and their scheme membership is undone. Every three years employers have to automatically re-enrol those eligible workers who are not currently saving.

16. In April 2019, the statutory minimum contributions for AE increased to 8 per cent of the employee's qualifying earnings, of which 3 per cent should be contributed by their employer. Most people will receive tax relief on their contributions.

17. Since AE's introduction in 2012, workplace pension saving has become the norm for workers. Over 10 million individuals have now been automatically enrolled into a workplace scheme by their employer, with nine out of every ten of them continuing to save[2] . Many of those benefitting were once poorly served or excluded from workplace pensions, but thanks to AE, many more women, low earners and younger people are now building an asset for their future.

18. In December 2017, the 2017 review report was published; this was a statutory review into AE, required under the Pensions Act 2008. The review examined what had been achieved so far and looked at how AE could be strengthened.

19. The proposed legislation covered in this Regulatory Impact Assessment (RIA) will amend provisions in the Pensions (No.2) Act (Northern Ireland) 2008 to give regulation making powers which will enable the Department to make regulations to lower or raise the lower age limit at which otherwise eligible workers must be

[2] http://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis

automatically enrolled and re-enrolled into a pension scheme by their employers. It will also allow regulations to remove the LEL from the qualifying earnings band so that contributions are calculated from the first pound earned and to make regulations modifying the requirements of the annual review of the qualifying earnings band as it relates to the LEL.

Policy Options

20. The 2017 review concluded that the most effective way to expand pension saving amongst groups that remain outside the scope of the reforms was to expand the scope of AE to encompass younger workers and allow all savers – new and existing – to benefit from increased pension contributions by targeting the removal of the LEL for AE, with the eventual aim of contributions being made from the first pound of earnings.

21. The 2017 review set out the ambition to lower the qualifying age for being automatically enrolled into a workplace pension to 18. The original minimum age of 22 for AE was based on National Minimum Wage age criteria, which have since been superseded. It is therefore helpful to understand the practical implications of aligning the AE threshold with an age that is relevant for employers in other areas such as the age bands for the National Living Wage.

22. Enabling the removal of the LEL would increase contributions for a large proportion of people saving into a workplace pension. This includes those earning below the trigger who have chosen to exercise their right to opt in to AE. The change would tend to benefit the lowest earners the most. Everyone who opts in would be entitled to an employer contribution, even the lowest earners.

23. A new power to remove the LEL entirely would also enable the removal of the 'entitled worker' category at the same time, simplifying the policy by having only two categories of qualifying worker. The legislative changes would reduce administrative complexity for employers when assessing their workforces, and the associated business costs.

24. Other options that could increase total pension saving include reducing the earnings trigger, currently set at £10,000 per year; or increasing statutory

minimum contributions beyond the existing 8 per cent. However, the level of the earnings trigger is reviewed annually by the Westminster Government3 and the most recent statutory review concluded that it was set at the right level, and continues to benefit all those eligible to be automatically enrolled into a workplace pension. Options to increase AE contributions may be appropriate in the longer term.

Analysis - Overview

25. The Bill provides powers to change the scope of AE through secondary legislation. Secondary legislation would be subsequently required to implement such changes. The analysis presented throughout this RIA is aimed at illustrating the magnitude of the impact of the types of changes that may be made.

26. In order to illustrate the potential changes, the RIA models the measures recommended in the 2017 review report, they were:

    a) Abolish the LEL, and

    b) Lower the LEL from 22 to 18.

In the absence of final policy details, this illustrative analysis assumes that the changes are implemented immediately. However, the results would change if, as per previous AE policies, these were phased in.

27. As outlined in the summary, an alternative option considered (Option 3) was for a non-legislative option through encouraging the adoption of a zero LEL and enrolment from age 18. This is based on encouraging employers to adopt measures without legislation, and enrol employees from the age of 18 and from the first pound when earning over £10,000 p.a. Although many employers have already adopted the measures (reflected in the lower costs compared to 2017) it is unlikely at this stage that more would introduce them voluntarily. Participation rates are known to be low among younger cohorts, so there is no expectation that employers would seek to change this voluntarily. Further, there is a

[3] Whenever the Secretary of State for Work and Pensions makes an order to substitute amounts and specify rounded figures for the earnings trigger and qualifying earnings band, the Department for Communities is empowered to make a corresponding order. The Department has no power to specify different amounts for NI.

significant risk of this approach in terms of equal treatment for individuals, with individuals experiencing very different outcomes simply based on who they work for. As a result, there is no full estimate of the impact of this option further in the RIA.

28. The following diagram lays out the primary effects these proposals would have.

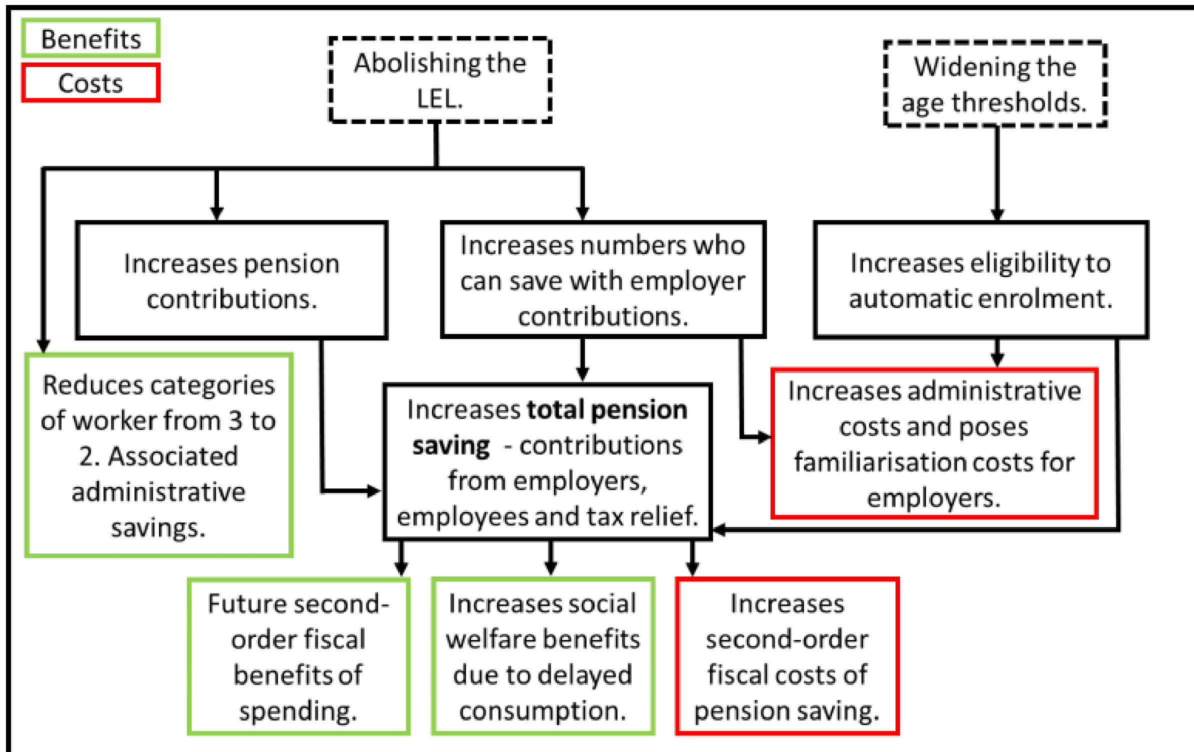

Figure 1 – Outline of Effects of AE Policy Changes

Pension Saving

29. The primary impact of abolishing the LEL would be to increase the minimum pensionable earnings that employees and employers pay pension contributions on. This would therefore increase total pension saving. Abolishing the LEL would also mean that those who currently earn below the LEL would be entitled to an employer contribution if they opt in (or have already opted in). This may also increase total pension saving, albeit modestly, given the low level of earnings.

30. As the Westminster Government already has the power to vary the LEL (and NI is empowered to make a corresponding Order), the impact of abolishing the LEL

could be smaller if the LEL were already reduced (or bigger if the LEL were increased). This RIA assesses the impact of a change from the current LEL (£6,240) to £0.

31. Changing the age thresholds for AE would influence eligibility and therefore the total number of pension savers. Where the power is used to increase the age range of those eligible for AE, total pension saving would also increase.

First-Order Fiscal Effects

32. If employees' pension contributions increase, they will receive more income tax relief on the contributions they make. The precise size of this effect will depend on the scale of the increase, their income tax band and pension scheme arrangements.

Employer Costs and Second-Order Fiscal Effects

33. If employers are required to pay more into their employees' pension scheme, they may take action to mitigate the additional costs they are facing. There is considerable uncertainty about how employers might do this over the long run. What they do will have knock-on effects for tax receipts, either on corporation taxes, or on income tax, national insurance contributions and VAT, or a combination of all of them. However, the most common approach appears to be that employers absorb the additional cost with other overheads.

34. In the future, those who have saved more over their working life due to AE will be able to spend more on consumption in retirement than they would have otherwise. This additional consumption is expected to have a positive macroeconomic effect. Due to the considerable macroeconomic uncertainty involved, these effects are not quantified in detail in this RIA. However, it is important to be mindful that second order costs presented in this paper do not represent the overall effect these policies could have via second order effects.

Benefit Claims

35. Removal of the LEL would increase Universal Credit costs by increasing the amount of pension contributions UC claimants are making. Removing the LEL would mean that UC claimants saving into occupational pensions would be making pension contributions on an additional £6,240, thereby increasing their total pension contributions, lowering their net income for the UC means test, and therefore increasing their UC entitlement.

36. Increased workplace pension savings through abolition of the LEL and the reduction of the AE age limit from 22 to 18 could have an impact on future Pension Credit entitlement due to the build up of future savings for retirement. Owing to the longer timescales and considerable uncertainty in the impact on Pension Credit these effects are not quantified in this RIA.

Employer's Administrative and Familiarisation Costs

37. Aside from the increased cost of contributing to their employees' pension schemes, increasing the total number of employees enrolled into an occupational pension would place an additional burden on employers in the form of their administrative costs. Part of these costs will come in the form of familiarising themselves with the new policies, or commissioning someone else to do so on their behalf. However, simplifying the eligibility rules by removing a third category of 'entitled worker' and no longer having to update the LEL annually would produce an administrative easement.

Social Welfare Benefits

38. The most likely effect of changes made under these powers would be to increase total annual pension saving. This would delay consumption from working life to retirement. This has been shown to have a positive effect on an individual's welfare over their lifetime[4].

[4] Van de Coevering et al, Estimating economic and social welfare impacts of pension reform DWP pensions technical working paper, 2006.

Small and Micro Business Assessment (SAMBA)

39. The proposed removal of LEL and reduction of age limit to 18 would also have an impact on small and micro business. This section explores the impact on employer and employee additional pension contribution as well as income tax relief as a result of the changes.

Summary

40. Tables 14 and 15 summarise the evidence presented in the following analytical sections.

41. It is recognised that Green Book guidance recommends a 10-year appraisal period for policy changes of this nature. However, AE is a long-term programme that is set to have a lasting impact on pension saving beyond 2032. As such, any changes to AE need to be assessed on this basis too and is consistent with past pension RIAs. On the other hand, due to the challenges of interpreting any estimates associated with a long-term appraisal period, the impact of the changes proposed are also presented here as an annual estimate of the first year of the policy.

42. As such, within this paper estimates of pension saving in annual terms are supplied for 2022/23. This is not because there is any intention that the policy changes would be implemented at that time. As outlined above, the changes are envisaged as happening in the mid-2020s. However, 2022/23 is used to provide an illustrative impact of the likely use of powers because estimates for this year are the easiest to produce using available information.

43. The importance of thinking about the costs and benefits of these policy changes on a long-term basis is also recognised. As such, the estimates for 2022/23 forward are projected over a 30-year appraisal period ending in 2051/52. To do this long-term earnings growth projections, the GDP deflator, and the 3.5% Green Book discounting rate have been used.

44. The estimated impacts that these reforms could have are presented twice, in two different forms:

   a. Table 14 contains estimated impacts for 2022/23 – the equivalent of a year 1 cost of the policy.
   b. Table 15 contains estimated impacts for a 30-year period from 2022/23 to 2051/52.

   Both sets of estimates can also be found in the summary tables at the top of this RIA.

Table 14: Summary of Impacts Per annum figures in 2022/23 terms

	Option 1: Do-Nothing Business-as-Usual. £ billions	**Option 2a:** Abolish the LEL. £ billions	**Option 2b:** Lower the lower age limit to 18. £ billions	**Option 2:** Abolish the LEL and lower the age limit to 18. £ billions	**Option 3:** Non-legislative. £ billions
Total Pension Contributions	69.1	+1.4	+0.4	+2.0	Neg.
Employer Pension Contributions	41.0	+0.6	+0.2	+0.8	Neg.
Employee Pension Contributions	20.0	+0.6	+0.2	+0.9	Neg.
Income Tax Relief	8.1	+0.2	+0.1	+0.2	Neg.
Other Fiscal Costs	2.9	+0.1	+0.0	+0.2	Neg.
Business Administrative Costs	Neg.	Neg.	+0.0	+0.0	Neg.
Social Welfare Benefit of AE	n/a	n/a	n/a	n/a	Neg.

45. Notes on Table 14:

   a. The figures provided here are estimates of additional pension contributions due to automatic enrolment. They are not estimates of total pension saving.

   b. The impact of implementing both policies at once will be larger than the sum of the impacts of implementing each policy individually. This is because there is an "interaction effect" which is only realised when both policies are implemented simultaneously. In this case, this is the impact of 18-21 year olds saving on earnings below the LEL.

   c. Social welfare costs are not included here as they are a longer term impact.

Table 15: Summary of Impacts Full Appraisal Period (2022/23-2051/52) in 2022/23 Terms

	Option 1: Do-Nothing Business-as-Usual. £ billions	**Option 2a:** Abolish the LEL. £ billions	**Option 2b:** Lower the lower age limit to 18. £ billions	**Option 2:** Abolish the LEL and lower the age limit to 18. £ billions	**Option 3:** Non-legislative. £ billions
Total Pension Contributions	1,546.1	+30.3	+9.3	+45.1	Neg.
Employer Pension Contributions	917.2	+13.4	+3.5	+18.9	Neg.
Employee Pension Contributions	447.7	+13.5	+4.7	+21.0	Neg.
Income Tax Relief	181.2	+3.5	+1.2	+5.2	Neg.
Other Fiscal Costs	64.0	+2.9	+0.3	+3.9	Neg.
Business Administrative Costs	Neg.	Neg.	+0.2	+0.2	Neg.
Social Welfare Benefit of AE	485.1	+9.5	+2.9	+14.2	Neg.

46. Notes on Table 15:

    a. The figures provided here are estimates of additional pension contributions due to automatic enrolment. They are not estimates of total pension saving.

    b. The impact of implementing both policies at once will be larger than the sum of the impacts of implementing each policy individually. This is because there is an “interaction effect” which is only realised when both policies are implemented simultaneously. In this case, this is the impact of 18-21 year olds saving on earnings below the LEL.

Analysis: Pension Saving

47. The policy proposals outlined above as the leading option for the use of the proposed powers would, if implemented, increase total pension saving for three reasons:

    a. Abolishing the LEL would increase an employee’s minimum pensionable earnings.

    b. Abolishing the LEL would allow more people below the earnings trigger to opt in to a pension with employer contributions.

    c. Lowering the age threshold would widen eligibility to be automatically enrolled for those earning above the earnings trigger.

48. The type and size of the impact will be different for three different groups, based on their earnings. For instance the group an individual is placed in will depend on how their earnings in the relevant pay period compared to annual thresholds adjusted for these pay periods. For example, an employee who is paid monthly will have their monthly pay compared to the monthly equivalent of earning £10,000 per year for the earnings trigger. For the purposes of the analysis presented here, the data captures a snapshot of pay in April which is then annualised. As such, all pay is compared to the thresholds on an annual basis.

a. Employees whose earnings are above the earnings trigger (£10,000 in 2022/23).

b. Employees whose earnings are between the LEL and the earnings trigger (between £6,240 and £10,000 in 2022/23).

c. Employees whose earnings are below the LEL (£6,240).

49. The following two tables show how the status of different types of workers changes due to the reforms:

Table status of different types of workers under present AE terms

Table 16				
		At Present		
		Age		
Earnings	**16-17**	**18-21**	**21-SPa**	**Spa-74**
<LEL	No AE. Can opt in, but employers not obliged to contribute.	No AE. Can opt in, but employers not obliged to contribute.	No AE. Can opt in, but employers not obliged to contribute.	No AE. Can opt in, but employers not obliged to contribute.
LEL-ET	No AE. Can opt in and employers are obliged to contribute if they do.	No AE. Can opt in and employers are obliged to contribute if they do.	No AE. Can opt in and employers are obliged to contribute if they do.	No AE. Can opt in and employers are obliged to contribute if they do.
>ET	No AE. Can opt in with employer contributions.	No AE. Can opt in with employer contributions.	AE	No AE. Can opt in with employer contributions.

Table status of different types of workers under AE Review proposals

Table 17				
		Under AE Review Proposal		
		Age		
Earnings	**16-17**	**18-21**	**21-SPa**	**Spa-74**
<LEL **LEL-ET**	No AE. Can opt in with employer contributions.	No AE. Can opt in with employer contributions.	No AE. Can opt in with employer contributions.	No AE. Can opt in with employer contributions.
>ET	No AE. Can opt in with employer contributions.	AE	AE	No AE. Can opt in with employer contributions.

50. Because of this, the results of three different models are presented here, one for each earnings group.

Employees Earning above the Earnings Trigger

51. This group represents the core target group for AE and it is by far the largest group impacted by AE. Since AE has now been fully implemented, all private sector workers earning above £10,000 are enrolled into a pension scheme provided they are aged between 22 and State Pension age and will continue to save if they did not opt out or cease saving.

52. Abolishing the LEL would substantially increase pension saving for this group. For every individual in this group in 2022/23, abolishing the LEL would increase the legislated minimum band of pensionable earnings by £6,240 per year.

53. If contributions are currently calculated on pensionable pay between total earnings and the LEL, abolishing the LEL would increase employer contributions at 3% by £187 (per annum) and employee contributions at 5% by £312, a total increase of £499.

54. In the 2017 review, evidence showed that 70% of employees were making and receiving contributions from the first pound they earned, rather than from earnings beyond the LEL. This means that many employers are already calculating their pension contributions as if the LEL did not exist (whilst recognising AE in 2017 was yet to fully roll-out).

55. Abolishing the LEL might cause some people to opt out or cease saving when they otherwise would not have done so. Likewise, it might also cause some people to continue saving when they would not have done so. Because of the lack of certainty around this effect, it is assumed that the continued participation rate of people automatically enrolled will not change from the existing rate as the reforms are introduced.

56. Reducing the lower age threshold would increase the overall number of people eligible to be automatically enrolled above the earnings trigger, and therefore the total number of pension savers.

57. It is not possible to robustly estimate what percentage of 18-21 year olds would opt out or cease saving should they be automatically enrolled. As such, for the purposes of the analysis it is assumed that their ongoing participation behaviour is well modelled by eligible workers just above the existing threshold.

58. For those people aged between 18 and 21 who are earning above the earnings trigger, there would be an 'interaction effect' should the two policy changes be simultaneously implemented, a detailed operational matter that has not yet been fully explored. For the purposes of the analysis, the potential impact has been considered. In this scenario, not only could they be contributing to a pension for the first time, but they would also be contributing from the first pound of earnings too. This magnifies the impact of making either change independently.

59. Table 18 contains the forecasts of pension saving in 2022/23 for private sector employees earning above the earnings trigger of £10,000 a year under a 'Do Nothing' scenario, where the AE policy is left unchanged.

Table 18 - Impact on Pension Saving of private sector employees earning above trigger (2022/23)

	Lower Earnings Limit	Lower Age Limit	Participants	Employer Contributions	Employee Contributions	Income Tax Relief	Total Pension Saving
Baseline 2022/23	£6,240	22	14.5m	£40.7bn	£19.8bn	£8.1bn	**£68.6bn**
Abolish the LEL	£0	22	*(0)*	*(+£0.6bn)*	*(+£0.6bn)*	*(+£0.2bn)*	***(+£1.3bn)***
Reducing the Lower Age Limit to 18	£6,240	18	*(+0.4m)*	*(+£0.4bn)*	*(+£0.2bn)*	*(+£0.05bn)*	***(+£0.4bn)***
Proposal Both Measures	£0	18	14.9m	£41.5bn	£20.7bn	£8.3bn	**£70.5bn**
			(+0.4m)	*(+£0.8bn)*	*(+£0.9bn)*	*(+£0.2bn)*	***(+£1.9bn)***

Figures may not sum due to rounding

60. If the LEL were to be abolished in a single step total pension saving would increase by £1.3 billion per annum. Abolishing the LEL alone does not impact eligibility to AE. Abolishing the LEL will also impact workers who have opted into

a workplace pension scheme, who earn below £10,000 per annum. This is accounted for in the modelling, where it was also assumed that existing voluntary contributors aged under 22 would see increased contributions from the new lower LEL.

61. Reducing the lower age limit from 22 to 18 whilst maintaining the current LEL would increase annual total pension saving by £0.4 billion for those workers earning over £10,000 a year. This additional saving would be made by 400,000 new savers.

62. Implementing both the abolition of the LEL and the reduction of the age limit from 22 to 18 simultaneously would increase total pension saving for those earning more than £10,000 a year by around £1.9 billion per annum, while bringing in 400,000 new savers earning over this level.

Total Pension Saving

63. Table 19 summarises the results of the overall estimate of the impact these policy measures could have on all private sector employee's pension saving (not just those earning above £10,000 per annum):

Table 19 - Total Impact on Pension Saving of all Private Sector employees (2022/23

	Lower Earnings Limit	**Lower Age Limit**	**Participants**	**Employer Contributions**	**Employee Contributions**	**Income Tax Relief**	**Total Pension Saving**
Baseline 2019/20	£6,240	22	15.2m	£41.0bn	£20.0bn	£8.1bn	**£69.1bn**
Abolish LEL	£0	22	..	*(+£0.6bn)*	*(+£0.6bn)*	*(+£0.2bn)*	***(+£1.4bn)***
Reducing the Lower Age Limit to 18	£6,240	18	*(+0.5m)*	*(+£0.2bn)*	*(+£0.2bn)*	*(+£0.1bn)*	***(+£0.4bn)***
Proposal Both Measures	£0	18	*15.8m (+0.5m)*	£41.9bn *(+£0.8bn)*	£21.0bn *(+£0.9bn)*	£8.3bn *(+£0.2bn)*	**£71.1bn *(+£2.0bn)***

64. The combined proposals increase total pension saving by £2.0 billion. Of this, £0.9bn would be paid in employee contributions, £0.8 billion would be paid in employer contributions, and £0.2 billion would be paid in income tax relief on employee contributions.

65. As outlined above, these impacts are sensitive to the behavioural assumptions that have been made, as outlined in the section "Analysis: Behavioural Impacts".

Analysis: First-Order Fiscal Effects

66. All employees who are earning above the personal tax allowance will receive income tax relief on their employee pension contributions. This is paid in line with the marginal rate of taxation. Estimates for the income tax relief paid out due to AE and the policy changes appraised in this RIA are given in Table 19 above.

67. In the previous section, it was assumed that all private sector employees who were automatically enrolled (because they earned above the earnings trigger) were effectively receiving income tax relief at a rate of at least 20 per cent on income above the personal tax allowance and below the upper earning limit. Furthermore, those earning above the upper earnings limit will receive some tax relief at the higher rate of 40 per cent, since they will be paying some income tax at this rate. (The upper earnings limit coincides with the upper National Insurance threshold and the threshold for higher rate income tax.)

68. How much income tax relief is paid due to AE and the policy changes appraised here is based on Annual Survey of Hours and Earnings (ASHE) data. This accounts for the different tax rates paid by earners depending on their income level.

69. Those people who earn below the personal tax allowance (PTA) do not pay income tax and therefore they would not immediately benefit from not paying income tax on pension contributions made from their gross pay. However, people earning below the PTA receive an additional payment (equivalent to basic rate tax relief) on their employee pension contributions if they are in a Relief-at-Source (RAS) workplace pension scheme, which deducts pension

contributions from the pay after tax. Those in Net-Pay-Arrangement (NPA) pension schemes do not benefit from this contribution. Therefore, the composition of people earning below the PTA in RAS and NPA schemes will affect the total additional amount paid to those who earn below the PTA and contribute to a pension.

70. The analysis of the ASHE data estimates how savers are split between NPA and RAS schemes, either above or below the PTA, based on scheme membership.

Analysis: Employer Costs and Second Order Fiscal Effects

Employer Costs

71. In the section "Analysis: Pension Saving" above, it was estimated that employer contribution costs associated with implementing both of the proposed policies that are most likely to be implemented under these powers would be £0.8bn p.a. (Table 19).

72. Employers may be able to find the resources to meet these costs themselves or act to pass on the increased costs onto other groups, such as employees or consumers. This will have implications for tax receipts across various areas. These effects are termed 'Second Order' fiscal effects since they are not an immediate impact of the policy change, but rather the consequences of possible behavioural responses to the change.

73. When faced with the increased costs of paying employer contributions towards workplace pension schemes, employers may respond by:

    a. Reducing wage increases - this would reduce income tax, National Insurance and VAT amounts paid by their employees.
    b. Increasing consumer prices – this would increase VAT receipts.
    c. Lowering profits – this would lower corporation tax receipts.
    d. Employing fewer people – this would also reduce income tax, National Insurance and VAT receipts.

e. Improving productivity – this would increase growth and therefore income tax, National Insurance and VAT receipts.

74. Table 20 provides a breakdown on employers' responses to increased costs of employer contributions (2019 data). The responses are broadly similar regardless of business size with around two-thirds of employers stating they would absorb any increases as part of other overheads[5].

Table 20: Employers' strategies to absorb increase in total pension contributions (EPP 2019)

Action	% of private sector employers who reported an increase in contributions
Absorbed as part of other overheads	68%
Reduction in profits	54%
Increased prices	13%
Lower wage increases	7%
Changing existing pension scheme	6%
Re-structured/reduced workforce	5%
Reduced contribution level for existing members prior to reforms	1%

75. It is not possible to fully model the results of each of these behaviours with a large degree of accuracy. However, some estimates of how big the effects would be for the combined policy proposals are shown in Table 21. These represent the most likely measures taken by employers judging by the evidence presented above. They include:

a. The fiscal impact that employers reducing wage growth would have on employer National Insurance contributions.

b. The fiscal impact employers reducing wage growth would have on employee National Insurance contributions and income tax receipts.

c. The fiscal impact that employers reducing wage growth would have on VAT via a reduction in employee consumption.

[5] Employer's Pension Provision Survey 2019 - GOV.UK (www.gov.uk)

d. The fiscal impact employers reducing profits would have on corporation tax.

e. The (positive) fiscal impact employers increasing prices would have on VAT receipts.

76. How employers would respond to these increased costs over the long-run is unknown, therefore three scenarios are provided to illustrate a range of second-order costs: likely measures taken by employers judging by the evidence presented above. They include:

    a. In the first scenario, employers pay for the entirety of their increased employer contributions by reducing wage growth. In short, the additional cost is entirely paid by employees in this case.

    b. In the second scenario, employers pay for the entirety of their increased employer contributions by reducing profits.

    c. In the third scenario, the survey results presented above are used to divide the approach to managing total employer contributions into a combination of reducing wage growth, decreasing profits and increasing prices.

Based on the survey data, the third scenario (EPP) is the best estimate.

77. Table 21 also recognises that the additional burden placed on employees directly via increasing employee contributions would also have a second-order fiscal impact. This effect exists because reducing expenditure on consumption will reduce VAT receipts.

78. To estimate the impacts via employees, the modelling suggests of the £1.2bn extra employee contributions, £0.2bn is via income tax relief. As employees would face lower take-home pay, there may be a reduction in spending and thus VAT receipts. To estimate, a 35% marginal propensity to consume[6], and

[6] Bank of England estimates range from 10%-65% so 35% was chosen as a broad mid-point

average VAT of 10%[7] on expenditure, have been assumed. This results in £300m lower consumer expenditure and thus £30m lower VAT receipts.

79. To estimate the impacts on employers, the EPP Survey results are standardised to 100%. This would suggest, of the extra £0.8bn employer contributions, 4% will be passed on via lower wages; 32% via lower profits; and 8% via increased prices. The total impacts are then estimated by multiplying these costs by the marginal tax rates (20% for income tax; 15.05% for NICs; 19% corporation tax; 10% VAT). This suggests:

- £10m lower income tax receipts (via lower wage growth).
- £10m lower NICs receipts (via lower wage growth).
- £50m lower corporation tax receipts (via lower profits).
- £10m higher VAT (via higher prices).

80. It is important to note that any lost tax receipts in the near-term may be offset by future tax receipts. For example, via future consumption (as workers spend their pension savings when reaching retirement) and income tax (greater taxable income received in the future). However, given the significant uncertainties over such a long time frame, no attempt has been made to quantify this.

Table 21 - Second-Order Fiscal Impacts of abolishing the LEL and Lowering the Age Threshold for AE.

		Model	
	All Wages	**All Profits**	**EPP[8]**
% Employers Reducing Wage Growth	100%	0%	4%
% Employers Reducing Profits	0%	100%	32%
% Employers Increasing Prices	0%	0%	8%
Gross Employer Contribution	£840m	£840m	£840m
Gross Employee Contribution	£1,170m	£1,170m	£1,170m
Effect of increased Employee Contributions			
Direct Reduction in Income Tax	£230m	£230m	£230m

[7] OBR estimate 50% of expenditure is at 20% rate with the remainder largely at 0% rate (with a small proportion at the reduced rate)

[8] EPP (the Employer's Pension Provision) model uses responses to the EPP 2019 survey to divide the employer population into different groups exhibiting various types of behaviour. Instead of using raw percentages, which are not mutually exclusive, we weight the percentages so they add up to 100%. Not all options are modelled here.

Reduction in VAT due to Lower Net Earnings	£30m	£30m	£30m
Total Reduction in Income Tax and VAT	£270m	£270m	£270m
Effect of Employer Management of Employer Costs			
Reduction in Gross Employee Wages	£840m	£0m	£30m
Reduction in Profits	£0m	£840m	£270m
Increase in Prices	£0m	£0m	£60m
Reduction in Income Tax	£170m	£0m	£10m
Reduction in Employer NICs	£130m	£0m	£10m
Reduction in Employee NICs	£110m	£0m	£10m
Reduction in Corporation Tax	£0m	£160m	£50m
Net Reduction in VAT	£20m	£0m	-£10m
Total Reduction in IT, NICs, Corp Tax, VAT	£430m	£160m	£60m
Both Effects			
Total Reduction in Tax Income	**£690m**	**£430m**	**£330m**

Figures may not sum perfectly due to rounding.

Universal Credit Costs

81. Removal of the LEL would increase UC costs by increasing the amount of pension contributions UC claimants are making. Removing the LEL would mean that UC claimants saving into occupational pensions would be making pension contributions on an additional £6,240 (2023/24 LEL), thereby increasing their total pension contributions, lowering their net income for the UC entitlement calculation, and therefore increasing their UC entitlement.

Pension Credit Costs

82. Additional saving into workplace pension schemes by abolishing the LEL and reducing the age limit for AE to 18 will increase the income available to people in retirement. For people who increase their retirement income through workplace pension saving and who also receive Pension Credit, their Pension Credit entitlement could be reduced by workplace pension income. However, there is considerable analytical and behavioural uncertainty in the following areas:

    a. In the short term, additional pension saving for people in immediate pre-retirement ages could be relatively small, making a negligible impact on Pension Credit entitlement in retirement.

    b. For people with a sufficient employment record to accrue workplace pension savings that would impact Pension Credit entitlement in

retirement, their National Insurance record (from employment or National Insurance credits from any time on qualifying working age benefits) would be likely to also have sufficient qualifying years for a full new State Pension. An individual with a full State Pension would have no entitlement to Pension Credit.

c. For people who do not have sufficient qualifying years for a full State Pension, and whose workplace pension could provide an income that would affect their Pension Credit entitlement, from the age of 55 they would be able to drawdown their workplace pension until they had exhausted their pot by their State Pension age. In this case, their Pension Credit entitlement would remain the same as without these measures. As pension freedoms were only introduced in 2015, limited data exists to understand the extent of this behavioural effect.

d. Alternatively, for people who do not have sufficient qualifying years for a full State Pension, and whose workplace pension could provide an income that would affect their Pension Credit entitlement, they may choose not to take that income after reaching their State Pension age. In this case, Pension Credit entitlement would remain the same as without these measures.

e. For those entitled to Pension Credit, take-up between financial year ending 2010 and financial year ending 2019 ranged between 61% and 63%. Therefore, even for those with Pension Credit entitlement with additional workplace pension savings it is uncertain whether they would take up Pension Credit in either a baseline or counterfactual scenario. Take-up of benefits can be affected by multiple factors. Trying to explain the reasons for non-take-up is difficult and the data is not present in the modelling. As a result of the uncertainties in these issues, the impact on Pension Credit has not been quantified.

Analysis: Behavioural Impacts

83. The analysis above suggests that using these powers to abolish the LEL and reduce the lower age threshold as proposed would increase total pension saving

by £2.0bn per annum in 2022/23, of which £0.8bn will be paid by employers, £0.9bn by employees and £0.2bn by the state in income tax relief on the employee contribution.

84. In producing these estimates, the following assumptions have been made regarding individuals' behaviour and their workplace pension participation:

    a. Of those private sector employees aged over 22, ASHE data is used to identify those who currently participate and assume that they continue to do so following the abolition of the LEL.

    b. Of those private sector employees who are aged between 18 and 21 and otherwise eligible for AE, it is assumed that participation will change in line with the observed difference in participation for those just above an eligibility threshold and those just below, i.e., participation of newly eligible workers aged 18-21 will be based on the participation of those aged 22 (or higher where sample sizes require this).

    c. Of those private sector employees who are earning below the earnings trigger, the abolition of the LEL will not alter whether they participate in a workplace pension or not.

85. This section explores how sensitive the headline results reported above are to these assumptions.

86. As outlined above, a further RIA will be carried out when the powers appraised in this document are brought forward for implementation.

87. In the modelling of savers above the earnings trigger, the participation rate based on the Annual Survey of Hours and Earnings (ASHE) has been calculated. In 2020, the participation rate among private sector workers aged 22 and over earning above the earnings trigger was 86%.

88. The Employer Pensions Provision Surveys measured the opt out rate amongst employees working for employers who had introduced AE. The results from the surveys can be found in the following table:

Table 22: Opt Out Rate in Employer Pension Provision Surveys 2013, 2015, 2017 and 2019[9]

	Opt-out Rate
2013 Survey	9-10%
2015 Survey	9%
2017 Survey	9%
2019 Survey	9%
Average	**9%**

89. As can be seen in the table, the average opt out rate for those automatically enrolled into a pension by their employer for the first time has held steady across the course of the programme's implementation period at 9 per cent. However, the majority of employees covered by the Employer Pensions Provision Surveys will have been automatically enrolled because their employer introduced AE for the first time. Now that staging (the roll-out of AE) has concluded, the vast bulk of employees who will be automatically enrolled in future will be automatically enrolled as they start a new job. The 'Automatic Enrolment Evaluation Report 2018' shows that the opt out rate for employees starting a new job was 4.7 per cent, substantially lower than for those employees who were already working for an employer when they introduced AE.

90. The Employer Pensions Provision Surveys also measured the cessation rate amongst employers who had introduced AE. Here, the cessation rate is defined as the percentage of employees who were successfully automatically enrolled into a workplace pension who stopped saving, for any reason, after the opt out window but within one year. The survey also measured what percentage of the employees who ceased saving did so because they left their job. These two rates can be used to infer an 'Active Cessation Rate', where an employee ceases saving whilst remaining in their job, either because of an active choice or because they became ineligible. The results from the two surveys can be found in the following Table 23, along with the inferred rate.

[9] Employers' pension provision survey 2013 - GOV.UK (www.gov.uk), Employers' pension provision survey 2015 - GOV.UK (www.gov.uk), Employers' pension provision survey 2017 - GOV.UK (www.gov.uk), Employers' Pension Provision Survey 2019 - GOV.UK (www.gov.uk)

Table 23: Cessation Rate in Employer Pension Provision Surveys

Survey	Reported cessation rate	Of those ceasing what proportion left job?	'Active cessation rate' (Inferred)
2015 Survey	8%	50%	4%
2017 Survey	16%	67%	5%
2019 Survey	19%	65%	7%
Average			**5%**

91. As such, the evidence suggests:

    a. Between 4 and 5 per cent of employees who are automatically enrolled opt out.

    b. Around 5 per cent of employees who do start participating in a workplace pension having been automatically enrolled then make an active decision to stop saving whilst continuing to work.

92. Combining these two figures, it would appear that around 10 per cent of employees who are automatically enrolled either opt out or actively cease saving in the first year.

93. Given that some people will also actively stop saving after the first year, this range might slightly underestimate the total proportion of private sector employees who are automatically enrolled who will not participate in a workplace pension in the long-term.

94. The abolition of the LEL would have multiple effects on a private sector employees' incentives to participate in a workplace pension and these effects are conflicting. Assuming an employee was paying and receiving minimum contributions originally, the abolition of the LEL would increase their employee contributions, thereby reducing their take-home pay, whilst increasing their employer contributions, which is a form of income they would not have otherwise received.

95. Economic theory dictates their decision to continue participating in a workplace pension is determined by how they value the trade-off between the loss of income (and therefore consumption) in the short-run against the long-run gain of a larger pension (and therefore more consumption later in life). As such, theory is ambivalent about whether abolishing the LEL would increase or decrease workplace pension participation rates – there are opposing effects and the result depends on which one dominates for a given individual.

96. However, AE has shown that many people display a high degree of inertia when faced with choices around pension saving. If this inertia is unaffected by the policy changes discussed here, the vast majority would continue to save for a pension.

97. Recent evidence from the increases in contribution rates that took place in 2018 and 2019 has suggested that individuals who have already been automatically enrolled into a workplace pension did not respond strongly to the increase in contributions and a subsequent fall in take-home pay that came about due to the increase in minimum employee contribution rates from 1 per cent to 3 per cent in April 2018, and from 3 per cent to 5 per cent in April 2019.

98. In light of this evidence of the strong inertia of workplace pension savings, assuming the overall participation rate would remain unchanged after the LEL is abolished appears to be the most appropriate approach.

99. However, it is still important to think about how the results might change with changes in the assumptions around the percentage of people who stop saving (after the policy change). Two scenarios have been tested:

    a. Increasing the participation rate by 2 percentage points.

    b. Decreasing the participation rate by 2 percentage points.

    The following table shows how the estimated impact of abolishing the LEL changes as the overall participation rate changes with the policy.

Table 24 – How the estimated impact of abolishing the LEL varies with changes in the participation rate amongst those between 22 and the State Pension Age who earn above £10,000

Participation Rate	Total Savers	Employer Contributions	Individual Contributions	Income Tax Relief	Total Pension Saving
+2 ppts	14.7m	£42.0bn	£20.8bn	£8.4bn	**£71.1bn**
Original Estimate (86%)	14.4m	£41.0bn	£20.3bn	£8.2bn	**£69.5bn**
-2 ppts	14.0m	£40.0bn	£19.8bn	£8.0bn	**£67.9bn**
					Figures may not sum due to rounding

100. The table shows that a 2-percentage point change in the rate at which people participate has a significant impact on the impact of abolishing the LEL. This change in the participation rate would drive a change of approximately £1.6bn in the total pension saving figure, representing the additional saving of approximately 300,000 savers.

18-21 Year Olds above the Earnings Trigger

101. For the purposes of the modelling above, it is assumed that the proportion of 18-21 year olds who are earning above the earnings trigger who would be automatically enrolled if it becomes a legal requirement for their employers to do so would be well approximated by the known participation rate of those just over the existing age threshold (22).

102. However, it is not certain that the same proportion of 18-21 year olds would participate in a workplace pension, having been automatically enrolled, as the rest of the population.

103. 18-21 year olds may have a lower participation rate in a workplace pension having been automatically enrolled because:

a. Many 18-21 year olds, particularly students, might be in more temporary work situations (e.g. summer jobs) where they are making the equivalent of more than £10,000 p.a for a few months, and the benefits of saving into a workplace pension for a short period are less obvious.
b. Workplace Pension Participation statistics suggest that workplace pension participation tends to increase with age, with the currently eligible 22-29 age group having the lowest rate of workplace pension participation.

104. 18-21 year olds may have a higher participation rate in a workplace pension having been automatically enrolled because, theoretically, 18-21 year olds have the most to gain from every pound invested in a workplace pension in a given year. The savings they make at the start of their working life will accumulate the most growth over their lifetime.

105. Because many 18-21 year olds may be students and pension participation amongst eligible workers tends to increase with age, it therefore seems reasonable to assume that the participation rate of the newly eligible 18-21 year olds group would be well approximated by the participation rate of those aged just over the existing age threshold.

106. It seems unreasonable to assume that making the 18 to 21 year old group eligible for AE would not have any positive impact on their pension participation rate, because all the evidence on AE for other age groups has shown that it is a significant driver of workplace pension participation.

107. In order to understand how the assumption that participation in 18-21 year olds would be well approximated by those just above the existing age threshold (22) affects the estimated impacts of lowering the age threshold, adjusted figures are presented for this impact assuming various different participation rates amongst the 18-21 year old population. This is shown in Table 25.

Table 25 - How the estimated impact in 2022/23 of lowering the age threshold and abolishing the LEL varies with changes in the participation rate amongst those aged between 18 and 21 who earn above £10,000

Participation Rate	Eligible Employees	Total Savers	Employer Contributions	Individual Contributions	Income Tax Relief	Total Pension Saving
Original Estimate (74%)	720k	530k	£0.4bn	£0.4bn	£0.1bn	**£1.0bn**
22-29 Year Old Rate (84%)	720k	605k	£0.5bn	£0.5bn	£0.1bn	**£1.1bn**
Current Rate (26%)	720k	190k	£0.2bn	£0.2bn	£0.0bn	**£0.3bn**
						Figures may not sum due to rounding

108. In the table above, it is evident that adjusting the assumption from the original estimate by increasing the participation rate by 10 percentage points increases the estimated impact of lowering the lower age threshold from 22 to 18 by approximately £0.1bn in 2022/23.

Below the Earnings Trigger

109. For the purposes of the modelling above, it is assumed that:

a. The same proportion of private sector employees whose earnings are below the earnings trigger who were opting into a workplace pension scheme with employer contributions would remain the same after the abolition of the LEL.

b. This group includes those aged 18-21 earning below the earnings trigger of £10,000 a year.

110. Theoretically, there are good reasons to think these assumptions may not hold in practice:

a. For those already saving while earning below the earnings trigger, abolishing the LEL would potentially expand the band of relevant earnings they pay employee contributions and receive employer contributions on. Depending on how they value these factors relative to their current income, this might lead some people to choose to stop saving.

b. For those who are not already saving while earning below the earnings trigger, increasing or, for the first time gaining, the right to receive an employer contribution should they opt in could lead to them choosing to opt in.

111. The following table shows how the estimated impact of abolishing the LEL on the workplace pension saving of those currently earning below the earnings trigger varies with the participation rate of that group:

Table 26 - How the estimated impact of abolishing the LEL with an age 18 threshold varies with changes in the participation rate amongst those who earn below the ET

Participation Rate	**Employees aged 18+ earning below £10k**	**Total Savers**	**Employer Contributions**	**Individual Contributions**	**Income Tax Relief**	**Total Pension Saving**
+2ppts (27.1%)	3.4m	911k	£720m	£432m	£25m	**£262m**
Current Rate (25.1%)	3.4m	844K	£667m	£400m	£23m	**£243m**
-2ppts (23.1%)	3.4m	777k	£613m	£368m	£22m	**£224m**
						Figures may not sum due to rounding

112. In the table above, it is shown that compared to the behavioural effects outlined above, the impacts of altering the participation rate for this group are relatively modest. A change of 2 percentage points leads to a change of approximately £19m in total pension saving.

113. Because there is little evidence about how abolishing the LEL will alter behaviour for this group, it is assumed that the participation rate will not change as the LEL changes and this assumption therefore informs the central estimate for the impact of the policy measure on this group.

Analysis: Impacts on Employers' Administrative and Familiarisation Costs

114. As recognised in the original RIA for AE, the actions businesses are obliged to take to fulfil their obligations under the AE programme mean that they incur administrative costs that they would not have otherwise faced. These costs are separate from the costs of increased pension contributions. They include, but may not be limited to:

    a. preparing for implementing AE, including setting up internal infrastructure, IT systems and adjusting existing payroll mechanisms;
    b. registration and qualification, including training staff;
    c. employee enrolment, including communicating with employees and registering employees with the qualifying pension scheme; and
    d. collection and administration, including the monthly process of collecting contributions and making adjustments to payslips, etc.

115. Widening the age thresholds for eligibility under AE would increase the overall number of eligible employees and the total numbers of employees enrolled into an occupational pension. This would increase administrative costs, as businesses pay for the administrative tasks required to enrol newly eligible employees (e.g. communication, registration, collection and payroll administration). However, as AE was introduced 10 years ago, it may be expected that these costs are well established as part of business-as-usual conditions. Nevertheless, an estimate of the additional cost is made.

116. In the 2017 review respondents repeatedly stressed that abolishing the LEL would simplify the current system and make it easier for employers to assess their employee's eligibility status. Whilst this efficiency saving cannot be quantitatively estimated at this time, it's likely abolishing the LEL would produce administrative cost savings in this sense.

117. Abolishing the LEL could slightly reduce business' ongoing costs of administering pensions for those employees who are already enrolled into a pension scheme because they are obliged to change the LEL every year in line with the AE Earnings Threshold review. It is possible some firms might incur a small cost in making a change to their payroll system. However, this change would be one-off change, unlike the annual change businesses already must make. As such, it is likely abolishing the LEL may deliver a small net saving in terms of administrative costs for business over the long-run as they are no longer required to update the LEL in their systems.

118. Abolishing the LEL would also give more people the right to opt into a pension scheme and receive employer contributions. Should more employees take up this option, then businesses would face increased administrative costs as they enrol these people. Businesses may also face additional costs in communicating the new policy to this group.

Estimating Additional Administrative Costs

119. The Employer Pension Provision survey continues to assess the costs to business of implementing AE. This has shown the cost to employers falling over time, with the 2017 review report finding a median cost of £50 per employer and 2019 report finding a median cost of £15 per employer. Though it should be noted there is considerable variation in the estimates and differs by business size (micro employers, with fewer members, have lower costs). See table 27 for 2019 estimates.

Table 27: Financial costs of implementing automatic enrolment by employer size 2019

	Size of organisation (employees)				
	Micro (1-4)	**Small (5-49)**	**Medium (50-249)**	**Large (250+)**	**All private sector employers with a workplace pension scheme**
Average Cost (£)[a,b]					
Mean	236	1,919	4,290	14,060	872
Median	0	386	1,458	4,647	15
Weighted base	745	319	24	4	1,093
Unweighted base	200	667	236	328	1,431
Report zero cost (%)	**37**	**18**	**14**	**12**	**30**
Report cost of greater than zero (%)	**27**	**37**	**2**	**30**	**31**
Cost not known (%)	**36**	**45**	**44**	**58**	**39**
Weighted base	218	671	405	1,481	2,775
Unweighted base	317	1,121	442	855	2,735

Base: All private sector employers with a workplace pension scheme

120. Notes on Table 27:

  a. Calculated only among those respondents who reported a cost, including those employers who reported zero cost. If average costs are calculated solely among those employers who reported non-zero costs, the mean cost was £1,719, while the median cost was £500.

  b. Includes costs of paid for advice but does not include costs of making pension contributions.

121. To find the additional cost per members, the 2015 Employer Pension Provision survey asked employers about the implementation costs for AE. This estimated the implementation cost per employee at £16 in 2014/15.

122. Some of the costs this figure represents will be unique to each business' first year in AE, whilst other costs are incurred on an ongoing basis. Since almost all the businesses that would be affected by these measures will have already

automatically enrolled their employees, the £16 per year figure is likely a significant overestimate on the one-off costs of enrolling the newly eligible. It may be expected this cost will reduce over time as the process becomes "business as usual" and would include one-off costs and adjusting the LEL, for example enrolling the workforce of 18-21 year olds, which will not be faced annually.

123. In Table 28 below, this data is used to estimate the additional administrative burden facing employers should the lower age threshold be reduced from 22 to 18 and remove the LEL. This estimate should be seen as an upper-bound on the likely estimated cost, given the caveats outlined above.

Table 28: Impact on Administrative Costs due to Proposed Age & LEL Change

Median Cost per Employee in 2014/15 cost terms. (A)	Estimated increase in pension savers due to changing lower age threshold from 22 to 18. (B)	Estimated increase in administrative costs due to changing the lower age threshold from 22 to 18 in 2014/15 cost terms. (A x B)	**Estimated increase in administrative costs in 2022/23 cost terms. (Adjusted using the GDP Deflator)**
£16	524k	£8.4m	**£9.9m**

124. Overall, it was estimated that implementing the reforms proposed here, would mean that businesses would face an additional administrative burden of an additional £10m p.a. (in 2022/23 terms). This estimate should only be considered as indicative. As outlined above, feedback suggests that removing the LEL could save businesses time through not having to change the levels each year. Therefore, this cost is likely an over-estimate.

125. As additional sensitivity analysis to the £16 per member cost. Looking at the costs per employer from Table 27 and multiplying by the business population (by

employer size)10 and the number of AE pension participants[11], this gives an approximate £12 cost per employee. This gives confidence in the estimate and that this may be an upper bound.

Analysis: Impacts on Social Welfare Benefits

126. The original RIA for AE quantified the social welfare impact the policy would have between 2012 and 2050. This was aimed at recognising the value encouraging people to delay their consumption has on their welfare over their lifetime[12].

127. The estimated social welfare impact was £40bn, the lower bound on a range between £40bn and £60bn.

128. This work represented a significant analytical undertaking. Repeating this analysis for the purposes of appraising the proposals in this RIA at this stage would be disproportionate and unnecessary.

129. By reviewing the ratio between the baseline level of saving under business-as-usual and the impact the proposals would have on saving, it is possible to make a basic adjustment to the original social welfare impact which reflects the impact these proposals would have. The following table does this:

Table 29: Adjustment of Social Welfare Benefit

Original estimated additional pension contributions (2006/07 prices)	£4bn-£5bn
Original Social Welfare Benefit Estimate over 38 years (2006/07 prices)	£40.0bn
Social Welfare Benefit Estimate adjusted for 30 years (2022/23 prices)	£41.2bn

[10] Business population estimates for the UK and regions: 2019 statistical release (HTML) - GOV.UK (www.gov.uk)
[11] Workplace pension participation and savings trends of eligible employees: 2009 to 2020 - GOV.UK (www.gov.uk)
[12] Van de Coevering et al, Estimating economic and social welfare impacts of pension reform DWP pensions technical working paper, 2006. CONTENTS (uni-muenchen.de)

Baseline total Pension Saving for all private sector employers (2022/23 prices)			£69.1bn
Baseline total Social Welfare Benefit for 30 years (2022/23 prices)			£485.1bn

	Option 2a - Abolish LEL	**Option 2b - reduce age limit to 18**	**Option 2 - combine**
Increase in Pension Saving	£1.4bn	£0.4bn	£2.0bn
Increase in Total Pension Saving	2%	1%	3%
Estimated Social Welfare Benefit Impact (2022/23 Prices)	£9.5bn	£2.9bn	£14.2bn

Small and Micro Business Assessment

130. One of the key principles of AE is that all eligible employees should be given the opportunity to save towards a pension. This should not depend on the size of their employer.

131. However, because it was recognised the small and micro businesses were likely to face a disproportionately large burden as a result of AE reforms, it was decided to introduce the policy gradually over a period of five years, with small and micro businesses the last to be obliged to enrol their workers.

132. Since small and micro businesses have started automatically enrolling their employees, pension participation amongst private sector eligible employees working for small and micro businesses has approximately tripled between 2015 and 2020.

133. The estimated cost of abolishing the LEL and lowering the age threshold from 22 to 18 for small (10-49) employees) and micro (1-9) employees in 2022/23 is shown in Table 11A.

Table 30 - Total Impact on Pension Saving (2022/23) for Small and Micro Businesses

	Lower Earnings Limit	Lower Age Limit for AE	Employer Contributions	Individual Contributions	Income Tax Relief	Total Pension Saving
Baseline 2022/23	£6,240	22	£5.7bn	£4.1bn	£1.4bn	**£11.2bn**
Proposal (Both Measures)	£0	18	£6.0bn (+0.3bn)	£4.4bn (+0.3bn)	£1.5bn (+0.1bn)	**£11.9bn (+0.6bn)**

Figures may not sum due to rounding

134. It is not possible to breakdown these estimates for small and micro business separately due to limitations in the data used to inform these estimates.

135. As with the original policy, exemption of small and micro employers is not appropriate as all eligible employees should have the opportunity to benefit from AE and to build up pension savings throughout their working life. Small and micro businesses along with all other employers already have duties to enrol, and pay contributions for, all eligible employees. The proposed measures under these powers, if implemented, could extend that duty to 18 to 21-year-olds and increase contributions via the removal of the LEL. The proposed measures also simplify administration as the age would once again be aligned to NMW age bands and all employees would be entitled to an employer contribution.

Monitoring and Evaluating

136. Over the roll-out of AE, a wide range of evaluation reports were undertaken to monitor the impact, looking at the impacts on employers and employees13. At this stage, the intention is to take powers to change the scope of AE through secondary legislation.

Summary and preferred option

137. The preferred option is Option 2 which proposes primary legislation to provide regulation making powers to lower the age at which qualifying workers are automatically enrolled into a workplace pension and reduce or abolish the LEL of the qualifying earnings band contained in the Pensions (No. 2) Act (Northern Ireland) 2008.

138. Reducing the lower age limit age to 18 would re-align the lower age with the National Minimum Wage criteria of age (18 to 20) thereby providing consistency, removing the arbitrary age 22 assessment and simplifying processes for most employers who would not have 16 to 17 year olds as part of their workforce.

139. Removing the LEL would mean that pension contributions would be made from the first pound earned, thereby increasing total pension saving and simplifying contribution calculations both for employers and individuals. Reducing, rather than removing the LEL, would mean that contributions would start at the new LEL. This would have the effect of increasing pension savings as contributions would be paid from the new LEL. However the impact on pension savings by lower earners and those in multiple jobs would be less than if the LEL was removed altogether.

140. These proposed changes as a whole fulfil the policy objectives. They would continue to normalise pension saving among workers; help lower earners build resilience for retirement; support individuals, predominantly women, in multiple part-time jobs; and simplify AE for employers.

END

[13] For example: Automatic enrolment evaluation report 2019 - GOV.UK (www.gov.uk)