



A report by Cebr
commissioned by
Creative Auto Enrolment

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Finding your way out of the auto enrolment maze

An analysis of the
employer costs of
pensions auto enrolment



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About CEBR

Cebr is the Centre for Economics and Business Research, an independent economics consultancy. Since its inception in 1993 Cebr has provided analysis, forecasts and strategic advice to major multinationals, financial institutions, government departments, charities and trade bodies.

1. Foreword

When auto enrolment legislation was first announced in 2008, as a way to get the UK saving for retirement, for most businesses it was a bridge to cross in the distant future. Fast forward five years and that future is here. Already all businesses with more than 10,000 employees have been required to set up schemes for their employees to be automatically entered into. For businesses with 500 employees or less, auto enrolment has now become a very real prospect that they need to understand and deal with imminently in order to comply with this new legislation - companies with more than 500 employees need to have a scheme set up by November 2013 and those with 250-499 employees have deadlines to meet in the first couple of months of 2014.

The auto enrolment process is highly complex. Firms will need to implement a scheme by a particular date, called their "staging date", determined by their payroll size in 2012. To do this they will need to assess which employees will need to be enrolled in the scheme (based on employees' ages, wages and opt in or opt out choices). They will also need to choose a pension scheme which meets certain minimum legal requirements. They will then need to update each of their employees on their pension and enrolment status. They will need to maintain the scheme on an ongoing basis by keeping abreast of employees' enrolment status and regulatory updates. Finally, in most cases, businesses will be required to contribute to employees' pensions. This will require a substantial investment in understanding the scheme and a significant updating of business processes. And if businesses don't comply, they could face fines.

There has been lots of discussion around how auto enrolment will affect employees and debate around whether employers are ready. However we wanted to look at how this new policy will affect businesses and business owners, and quantify just how much time, money and resource will be needed if a company were to tackle this task themselves. In turn we wanted to then examine what businesses need to do to navigate this auto enrolment maze.

The results in this report speak for themselves, outlining the significant costs and time pressures facing businesses in rising to the challenge of implementing auto enrolment. And with fines for non-compliance, businesses will also pay the price for getting it wrong. For businesses that haven't yet staged, auto enrolment is fast approaching, it's no longer that bridge in the distance, but with the right help and support, it doesn't have to be a big obstacle to cross.

David White
Managing Director, Creative Auto Enrolment

Please note

The auto enrolment Qualifying Earnings thresholds will be set each year by the Department for Work and Pensions.

At the time of writing this report (during the 2013/14 tax year), the lower and higher thresholds were £5,668pa and £41,450pa respectively. Please note that the thresholds for 2014/15 will be £5,772 and £41,865 respectively.

The pension contribution cost estimates in this report are based on the 2013/14 thresholds. All other things remaining unchanged, the higher thresholds in 2014/15, would give rise to higher pension costs than those illustrated in this document. As the thresholds will change each year and this document was sponsored purely to give helpful forecasts, no recalculations will be undertaken.

2. Executive summary

As life expectancy rises and the ratio of workers to retirees falls, the Government has brought in auto enrolment legislation in an effort to encourage more saving for retirement and help future pensioners to maintain a decent standard of living.

This legislation means that all businesses need to enrol their employees (who meet certain age and income thresholds) in a work place pension. There are significant one-off, regulatory hurdles for businesses in dealing with this and rolling administrative requirements thereafter. These regulatory and administrative costs are expected to impose a significant burden on businesses. In addition, firms will eventually need to contribute a minimum of 3% of employee income to the pension scheme, for workers enrolled in the scheme.¹

This report seeks to explain and quantify all these different types of costs for businesses in the UK's different regions.² Cebr's headline findings for the UK as a whole are as follows:³

- Total auto enrolment one-off, set-up costs for the UK's 1.26 million businesses (with fewer than 500 employees) are expected to be £15.4 billion over 2012-17.
- The total cost of auto enrolment-related pension contributions in 2018 is estimated to be £11.6 billion in that year to these UK businesses.

- In 2018, some £2.8 billion of revenue could be “at risk” for firms in sectors which will support other businesses in grappling with auto enrolment if they fail to provide high quality support services relating to auto enrolment.
- The total one-off set-up costs in London are expected to be £3.1 billion summed over 2012-17 - the highest of any region.
- Out of all UK regions, costs are expected to be lowest in Northern Ireland. One-off set-up costs are expected to be £400 million over 2012-17.
- In 2018, total auto enrolment pension contributions are expected to be highest in London at £2.1 billion. Cebr forecasts total auto enrolment pension contributions will be lowest in Northern Ireland at £260 million.

As well as these costs, auto enrolment will present businesses with a plethora of more nebulous challenges including liaising with employees, pension providers and The Pensions Regulator while keeping track of employee ages, wages and enrolment status to update on a rolling basis. Firms will also be required to understand and choose an appropriate pensions vehicle for their staff - this is likely to present a daunting new responsibility for managers, HR and even finance departments who will have little or no prior experience of advising on such matters.

1 See Appendix A

2 The estimates in this report cover those firms with between one and 500 employees. This is representative of almost all UK businesses with at least one employee, as opposed to just sole owner-worker arrangements. Over 99% of UK businesses with at least one employee have between one and 500 employees. See: Office for National Statistics, Business Population Estimates, 2012, Table 1.

3 The estimates presented here, and all other estimates in this report unless otherwise stated, are stated in terms of 2018 prices.

3. Auto enrolment: Why is it happening? What is it? What does it mean for businesses?

The Government believes that millions of British workers are not saving sufficiently for retirement. Two challenges have been highlighted:

- (i) life expectancy is increasing while pension pots are not growing in real terms
- (ii) the ratio of workers to retirees is falling, so it is becoming a stretch to have current workers funding current pensioners

Both challenges mean each British worker will have to save a greater proportion of their income to fund their own retirement and maintain an acceptable standard of living in their old age.⁴

Why is auto enrolment happening?

Automatic workplace pension enrolment was put in place to help remedy the situation, by encouraging UK workers to save more for their retirement.⁵ Because enrolment is automatic and the proportion of income saved is relatively small, the Government hopes most workers will not choose to opt out - increasing overall saving for retirement.⁶

What is auto enrolment?

Under the legislation, businesses of all sizes need to have enrolled their eligible employees in a work place pension, having undertaken all necessary preparatory work, by a given date - called their "staging date". The smaller the business is, the further in the future its staging date will be. After this date, firms will need to review their employees' circumstances on a rolling basis, automatically enrolling them if their income or age rises above the minimum necessary threshold for auto enrolment and processing opt in or opt out requests. All the while, businesses will need to keep each individual employee informed of his or her individual auto enrolment pension situation.⁷

The employer is responsible for choosing a pension provider for their employees.

UK workers will eventually contribute up to 5% of their eligible wages into a workplace pension and their employer will eventually contribute at least 3%.⁸ Initial contributions, shortly after the scheme becomes active for a given business, will be somewhat lower. Different sized firms and their employees will build up to these limits gradually and at different times and workers will be able to opt out.

4 Department for Work and Pensions, March 2013, "Automatic enrolment into a workplace pension", pp 3-4.

5 All firms with over 10,000 employees on 1 April 2012 must have implemented an auto enrolment scheme by March 2013. Firms with fewer employees on 1 April 2012 will be allowed to implement their schemes later. As of September 2013, all firms with over 500 employees on 1 April 2012 must have implemented an auto enrolment scheme.

6 The Pensions Regulator, August 2012, v4, "Automatic Enrolment" and The Pensions Regulator, August 2012, v4, "Opting-in and joining".

7 These requirements are explained fully in section 3.

8 Based on the definitions of "entitled workers", "eligible jobholders" and "non-eligible jobholders" (given in Appendix A), Cebr's model assumes that no "eligible jobholder" opts out and that all "non-eligible job holders" opt in. It also assumes that employers do not choose to contribute to the pensions of "entitled workers" who have chosen to join.

If an enrolled worker, who is not an "entitled worker", is earning above £41,450, as of October 2018 then their employer will be obliged to contribute 3% of £41,450 less £5,668; if they are earning between £5,668 and £41,450, as of October 2018 then their employer will be obliged to contribute 3% of their wage less £5,668. Over October 2017-18 this contribution rate will be 2% and 1% before October 2017. The respective contribution rates for the enrolled (but not "entitled") workers are 5%, 3% and 1% over each of these periods. Note the eligibility and entitlement thresholds are reviewed annually by the Department for Work and Pensions.

See: The Pensions Regulator, n.d., "Automatic enrolment earnings threshold" and The Pensions Regulator, April 2013, "Resource: The different types of worker". These are available at:

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

<http://www.thepensionsregulator.gov.uk/docs/pensions-reform-resource-the-different-types-of-worker.pdf>

Some workers on low incomes will not be automatically enrolled, but many will be able to opt in. All businesses with one or more employee will be required to co-operate with the auto enrolment legislation.

What does it mean for businesses?

Auto enrolment is likely to place significant burdens on firms throughout the economy. There are sizeable regulatory hurdles to be cleared before the staging date and rolling administrative requirements thereafter - not to mention the actual cost of pension contributions. To illuminate these costs for the business community, this report seeks to explain the different costs and quantify them for firms across the whole UK and in the UK's different regions.⁹



⁹ This report quantifies these costs with under 500 employees, which is representative of almost all UK businesses.

4. The auto enrolment burden

This section of the report investigates the different stages that businesses need to go through in order to make sure that they comply with the auto enrolment legislation. This explains the type of burden which auto enrolment will place on them.

The table below summarises these different stages and the estimated time burdens they are expected to impose on businesses. Each stage is explained in more detail below.

Table 1: Summary of auto enrolment procedures and their time burdens

Auto enrolment procedure	Time burden (man days); frequency
Know your staging date and auto enrolment process	Up to 10 days; one-off
Nominate a point of contact	Up to 8 hours; one-off
Develop a pension plan	Up to 20 days; one-off
Construct the designated communications	Up to 5 days; one-off
Liaise with payroll provider	Up to 6 days; one-off
Put in place adequate business processes	Up to 30 days*; one-off
Choosing a pension scheme for auto enrolment funds	Up to 9 days; one-off
Set-up pension scheme / liaise with pension provider	Up to 3 days; one-off and monthly
Classify workers into categories	Up to 5 days; one-off and monthly
Auto enrol eligible employees	Up to 4 days; one-off and monthly
Process opt outs, opt ins and joining requests and process automatic re-enrolment after three years	Up to 6 days; one-off and monthly
Addressing staff queries about auto enrolment	Up to 3 days; one-off and monthly
Register with The Pensions Regulator	Up to 5 hours; one-off
Keeping auditable records	Up to 10 hours; monthly
Keeping up with new auto enrolment rules and procedures	Up to 8 hours; monthly
Total one-off time burden	Up to 103 man days
Total monthly recurring time burden	Up to 3.5 man days

*This could be up to 40 man days for the very largest businesses.

Source: Creative Auto Enrolment data, Cebr analysis

The estimated time burdens given above are expected to apply to the typical UK business.¹⁰ Note that time burdens are expected to be smaller for firms with fewer employees and higher for companies with more employees.¹¹ Additionally, a degree of risk surrounds these estimated time burdens. Some businesses may experience difficulties when implementing auto enrolment processes, which could mean they face time burdens which are significantly greater than those outlined above. If these difficulties arise, they could increase the auto enrolment related costs the business faces. By contrast, other businesses may find implementing auto enrolment relatively painless, needing less time than estimated in the table above.

I. Establishing a company's staging date

The staging date is the date when legal duties come into effect requiring an employer to enrol some or all of their workers into the auto enrolment pension scheme.¹² The staging date for the auto enrolment scheme for any given company is determined by the number of people that they had in their PAYE scheme on the 1 April 2012. The larger the business, the earlier the staging date - for instance, for the largest companies (with more than 120,000 employees) the date was the 1 October 2012. For other, smaller companies, staging will occur until as late as April 2017. A table illustrating these different dates is given below.

Table 2: Staging dates for companies of different sizes

Size of company (number of employees)	Staging Date
120,000+	October 2012
10,000+	By March 2013
500+	By November 2013
250+	By February 2014
50-249	By April 2015
30-49	By October 2015
Below 30	By April 2017
New employers	By February 2018

Source: *The Pensions Regulator*¹³

However, knowing the correct staging date may be complicated by the fact that small companies may share PAYE schemes - as such, their date may be further forward than first thought. Time is needed to assess this and find out the appropriate staging date, which may be later than notified by HMRC. In addition, employers may choose to bring forward their staging date.

¹⁰ This report uses the term businesses, companies or firms to refer to companies with between one and 500 employees.

¹¹ Cebr's modelling procedure in later sections of the report takes account of this.

¹² See: <http://www.nestpensions.org.uk/schemeweb/NestWeb/public/MiscellaneousPages/contents/GLOSSARY.html>

¹³ See: <http://www.thepensionsregulator.gov.uk/employers/staging-date-timeline.aspx>

Depending upon the complexity of the assessment and decision making process, anything between two days and two weeks of time may be required, particularly as this is the time the firm is essentially learning about the whole auto enrolment process. It is expected that senior members of staff as well as those in more administrative roles will be involved in this stage, as all gradually learn what auto enrolment is and when their staging date will be. This process is expected to be more complex for larger businesses, placing them nearer the two week end of the expected time range. This stage only needs to be completed as a one-off commitment in preparation for auto enrolment.

II. Nominating a point of contact

Communication with The Pensions Regulator will be needed and businesses need to determine who will be the day-to-day contact. The Pensions Regulator is a regulatory body charged with the statutory objectives of “promoting and improving understanding of the good administration of work-based pensions to protect member benefits.”¹⁴ The Regulator says its principal aim is to “prevent problems from developing [and] use our powers flexibly, reasonably and appropriately, with the aim of putting things right and keeping schemes on the right track for the long term.”¹⁵ The Regulator must communicate with businesses to pursue these ends, hence the need for nominating a point of contact between each business and The Pensions Regulator.

Again, this is a one-off requirement. It is expected this will be decided in a series of meetings between directors and senior staff members. Deciding on and nominating a point of contact is expected to take roughly eight hours in total.

III. Developing a pension plan

This stage of the process is likely to be one of the most time-consuming. Once the staging date is confirmed, employers will need to start assessing the eligibility of their workforce for auto enrolment and looking at pension providers - or if the company already makes pension provisions for their employees, an assessment will be needed to see if the existing scheme can be used or adapted for auto enrolment.

For employers that don't already offer a pension scheme, the implications of how new contributions affect overall employee benefits packages will need to be considered.

Once a provider is chosen, the company will need to assess the type of pension scheme - for instance defined contributions or defined benefits. As well as being an obvious time burden for businesses, making this decision also places a huge responsibility onto whoever has been tasked with choosing a scheme for employees. It's not an everyday decision, as employer you are deciding where all your employees' money will be invested for their futures. And the majority of individuals handling auto enrolment within a business are likely to feel rather daunted when faced with this prospect, without any kind of financial advisory qualifications.

The total time burden of this stage is expected to be between two and four weeks of solid work, because of the complexity of the processes involved. Again, the process of developing a pension plan is expected to be increasingly complex the more employees it involves, meaning the time burden is more significant for larger businesses. It is expected that senior staff members, and Finance and Human Resources (HR) directors and administrators will all be actively involved in this one-off element.

¹⁴ See: <http://www.thepensionsregulator.gov.uk/about-us.aspx>

¹⁵ See: <http://www.thepensionsregulator.gov.uk/about-us.aspx>

IV. Constructing communications

Companies need to communicate the details of the assessment and categorisation of employees. They then need to explain the incoming pension scheme to their employees to make sure they understand the implications of new contributions and how this differs from any existing schemes.

Help is available from The Pensions Regulator on this stage in the form of pre-existing templates and guidance for employers. This one-off stage is expected to take up to five days of employer time, mainly involving HR staff.

V. Liaising with payroll provider

There will need to be liaison with the payroll provider to ensure that they can set up and run the pension deduction and payment processes in line with the new statutory requirements. If a plan is already in place then the process should be simpler, although companies will need to check that this plan provides for the changes that auto enrolment brings.

Whether or not a pension plan is already in place, communication will be needed with the pension provider on the treatment of contributions for opt outs, and with the payroll provider to understand how any refunds coming from opt out decisions will be treated.

The time burden for this one-off stage is estimated to be up to six days, again mainly involving HR staff.

VI. Putting in place adequate business processes

This stage is expected to impose the largest time burden on the business, due to the complexity of putting in the business processes to support all aspects of auto enrolment. The aspects that these will need to cover include ensuring appropriate actions are taken as employee statuses change (joiners, leavers, birthdays, maternity, salary changes, sickness etc.) and people changing any opt in or opt out decisions. In addition,

auto enrolment only applies to State Pension Age (SPA) and as such, this is a new field of data that employers will need to hold for each employee, updating it as legislation on SPA changes.

These processes can be done through manual records, kept in digital files or spreadsheets or by using automation. With this latter option, new software solutions and systems may be required, adding further time burden and cost in the form of software design and delivery, as well as designating somebody within each business to operate these systems and provide the necessary manual oversight to ensure they are running correctly.

It is recommended that everything is in place, including testing time, more than a month before staging so that staff are confident that the systems and processes chosen are able to carry out all of the functions necessary to be compliant.

The larger the company, the more potential complications exist and the more time needed to derive a solution. An estimated time of up to six weeks of employer time will be required at this stage, or eight weeks for the very largest employers. In all cases, HR and senior staff are expected to drive this one-off stage forward.

VII. Choosing a pension scheme for auto enrolment funds

All employers will be required to select a pension scheme to manage the auto enrolment pension funds of their employees. Employers will be required to select a scheme which meets certain legal requirements, including but not limited to: (i) the scheme does not require the worker's consent to join; (ii) it allows workers to join from their first day of employment; (iii) it is tax registered in the UK and (iv) it allows for the minimum legal contributions from employers and workers.

Employers will also need to evaluate pension schemes, choosing one which, in qualitative terms, “is well run, offers value for money and protects...employees’ retirement savings.” Employers are invited to assess schemes on three quality-related criteria:

1. Simplicity - This will enable employers and employees to better understand the scheme
2. Value for money - The costs and charges taken from employee savings must be considered when choosing a pension scheme
3. Different investment options - Within the selected pension scheme, there must be a default investment option with low investment risk and other bespoke options which employees may choose

In order to help employers choose a scheme which meets these legal and qualitative requirements, the Government has produced guidance notes.¹⁶

It is expected that most employers will select a defined contribution scheme and that financial directors and senior staff will be involved in choosing the scheme. Senior managers may decide they are not competent to select a scheme, in which case they may seek guidance from approved financial advisors. This is likely to have cost implications.

It is estimated that up to nine days of employer time will be required for this one-off task.

VIII. Setting up a pension scheme / liaising with the pension provider

Once a pension scheme has been selected, the employer must set up the pension scheme with the provider; that scheme must be ready to accept eligible jobholders. Thereafter, a nominated person, or nominated persons, must liaise with the pension provider to “monitor the performance of the default investment strategy and other investment options.”¹⁷

Through liaising with the pension provider, employers can ensure that the chosen pension scheme continues to be well run in terms of risks, expected returns and costs. They will also be able help their employees understand the investments being made on their behalf and the risks those investments carry - something employers are obliged to do.

There is also a capacity issue to consider here. Some pension providers have already announced they will not be able to help businesses who are within a certain timeframe (e.g. six months) of their staging date, so companies will need to ensure their chosen provider has the capacity to help. This is especially important when you consider the huge increase in the number of new pension schemes likely to be set up as a result of auto enrolment over the next few years, in contrast to the average number of schemes usually set up each year. Providers ‘closing their doors’ to new business, and the need to find ones that can help, could further exacerbate the time needed to complete this stage of the process for employers.

An estimated time of up to three days of employer time will be required at this one-off stage.

16 & 17 The Pensions Regulator, July 2013, “A quick guide to selecting a good quality pension scheme for automatic enrolment”

IX. Classifying workers into the auto enrolment categories

At the 'staging date', the business will need to classify all of its workers into the four categories for auto enrolment:

- eligible jobholder
- non-eligible jobholder
- entitled worker and other

Different employee categories will be treated differently under the scheme:

- entitled workers have the right to join a scheme, but no right to employer contributions;
- non-eligible jobholders have the right to opt into a scheme and receive employer contributions;
- eligible jobholders must be enrolled into a scheme with employer contributions

Which category the worker is in depends upon age and earnings.

In addition to classifying all employees, communications will need to be distributed and questions answered regarding the pension schemes.

Initially this is estimated to take up to five days of HR staff time, although this will be significantly less for smaller businesses. Worker assessments and communications must also be maintained adding an ongoing burden.

X. Auto enrol eligible jobholders

By this stage, the liaison with payroll providers and testing of the systems should have already been carried out and as such, the actual process of enrolling the eligible jobholders should be relatively quick and straightforward depending on the system chosen. The process itself includes deducting contributions from pay as appropriate, paying contributions to the pension provider on behalf of the employees and providing information to each pension provider.

Specifically, upon their staging date, businesses will be required to make a pension contribution equivalent to a minimum of 1% of employee wages (where wages are above the eligibility threshold). Thereafter, businesses' required contribution will gradually rise to a minimum of 3% of employee income. In a similar fashion, employees will be required to contribute up to 5% of their wages (where wages are above the threshold). Initially, employee contributions will be lower than this, gradually rising to 5%.¹⁸ The extent to which employer contributions represent an additional cost to the business, or are simply drawn from money which would have been paid out as salaries, is expected to vary on a company-by-company basis.

Wages in this document refers to Qualifying Earnings (which are employees' total earnings between a lower and higher limit).

18 Cebr's model assumes that no "eligible jobholder" opts out, that all "non-eligible job holders" opt in and employers do not choose to contribute to the pensions of "entitled workers" who have opted in.

If an enrolled worker, who is not an "entitled worker", is earning above £41,450, as of October 2018 then their employer will be obliged to contribute 3% of £41,450 less £5,668; if they are earning between £5,668 and £41,450, as of October 2018 then their employer will be obliged to contribute 3% of their wage less £5,668.

Over October 2017-18 this contribution rate will be 2% and 1% before October 2017. The respective contribution rates for the worker are 5%, 3% and 1% over each of these periods. Note the eligibility and entitlement thresholds are reviewed annually by the Department for Work and Pensions.

See: The Pensions Regulator, "Automatic enrolment earnings threshold" and The Pensions Regulator, November 2013, "Resource: The different types of worker". These are available at: <http://www.thepensionsregulator.gov.uk/employers/automatic-enrolment-earnings-threshold.aspx> and <http://www.thepensionsregulator.gov.uk/docs/pensions-reform-resource-the-different-types-of-worker.pdf>

The largest time element of this part of the process is expected to be associated with questions to enrolled employees about why money has been taken from their pay - depending on how effective communication was at previous stages. An important thing to note is that employers cannot encourage workers to opt-out of the scheme if dissatisfaction is expressed at their new, lower take-home pay. Companies could be hit with hefty fines for non-compliance if they do so.

The time burden for this one-off stage is expected to be up to four days of administrative staff time.

XI. Processing opt outs, opt ins and joining requests and processing automatic re-enrolment for eligible employees

Any changes to the original decisions from employees on whether to opt in and out of the scheme will need to be processed at this stage. The effectiveness of the communication between the business and the employees at previous stages is expected to determine the volume of requests to join or leave the auto enrolment scheme. All workers changing their status will require further communications to be issued and records of such changes will need to be retained and provided to the Pension Regulator on request. Businesses can choose to use a postponement period of up to three months (but Eligible and Non-Eligible Jobholders must be able to opt in during any postponement period).

All employers have a duty to automatically re-enrol eligible employees who opted out of a pension scheme back into a scheme once every three years. Regarding eligible jobholders, employers' automatic re-enrolment obligations apply once every three years. Employers will be required to keep track of jobholders' opt-out decisions and eligibility status over time so that automatic re-enrolment can be implemented at the appropriate time.¹⁹

The expected one-off time burden for this stage is expected to be up to six days of HR and financial staff time as auto enrolment comes on line.

XII. Addressing staff queries about auto enrolment

Employers will be obliged to address any queries staff have about any aspect of auto enrolment as and when they arise. This can be done in one of two ways:

1. Through a generic list of questions and answers, dealing with frequently occurring auto enrolment questions.
2. By investigating a specific question which a staff member has (perhaps one relating to their specific pensions investment portfolio).

This could potentially place a burden on administrative staff, particularly as auto enrolment comes on stream for a given business and employees slowly build up their understanding of the scheme. The expected one-off time burden for this stage is expected to be an average of three days as auto enrolment comes on line.

¹⁹ The Pensions Regulator, August 2012, 5 - Automatic enrolment: An explanation of the automatic enrolment process, pp 9.
See: <http://www.thepensionsregulator.gov.uk/docs/pensions-reform-automatic-enrolment-v4.pdf>

XIII. Register with The Pensions Regulator

This one-off administrative formality is likely to take around five hours via The Government Gateway registration site.

XIV. Keeping auditable records

As part of an ongoing process, records of how each individual has been assessed and communicated with, as well as any actions arising from this, need to be kept as the Pension Regulator will make requests of employers for such details.

These spot check requests may be carried out at random and as such no employer can risk not having adequate and up-to-date records in place to provide answers to The Pensions Regulator. This recurring requirement is expected to take roughly up to 10 hours each month for administrative staff, depending on the size of the employer.

XV. Keeping up with new auto enrolment regulations

Employers' auto enrolment obligations are periodically updated. For example, in 2013 the Government launched a consultation of changing auto enrolment regulations and technical requirements.²⁰ On an ongoing basis, employers are required to keep abreast of these regulatory changes and comply with them as they come in. This is expected to take roughly up to eight hours each month for HR and financial staff, depending on the volume of regulatory change.

XVI. Ongoing actions

Steps VIII, IX, X, XI, XII, XIV and XV will need to be completed each time payroll is run to ensure that all new employees and all employment changes are addressed and processed appropriately, with auto enrolment completed where relevant.²¹ This will also ensure that employers and pension providers are communicating regularly. Stages VIII, IX, X, XI and XII must be conducted as auto enrolment is set up. Thereafter, they must be conducted on a rolling basis, which will be less time-intensive than the initial set-up time requirements.



20 Department for Work and Pensions, March 2013, "Technical Changes to Automatic Enrolment".

See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221419/ae-technical-changes-consultation.pdf

21 Respectively, these stages are: Set up pension scheme / liaise with pension provider; Classify workers into categories; Auto enrol eligible employees; Process opt outs, opt ins and joining requests and process automatic re-enrolment after three years; Addressing staff queries about auto enrolment; Keeping auditable records and Keeping up with new auto enrolment rules and procedures.

5. How well-equipped are businesses to deal with auto enrolment?

Despite the final staging date for the smallest companies being April 2017, many businesses say they are not ready to meet their impending auto enrolment obligations.

According to a January 2013 survey of 1,327 businesses by the Institute of Directors:

1. Some 15% of businesses said they were not confident they would be able to correctly enrol their staff when they hit their staging date. This figure rose dramatically the smaller a business became, increasing to 46% for those with fewer than 50 employees.
2. One third of small businesses don't know how likely their staff are to opt out.
3. Two-fifths said that auto enrolment would hit profits, one fifth said it would hit wages and 3% said it would cause redundancies.²²

While the survey results were encouraging for larger businesses, indicating that the majority are well-equipped to auto enrol their employees and manage the scheme, the signs are less encouraging for smaller businesses.²³ Finance and HR administrators are expected to handle the day-to-day mechanics of auto enrolment in many businesses, with senior staff making important strategic decisions such as which pension scheme to use. This could prove a significant challenge for some businesses - administrative staff could become overburdened with the constant, rolling requirements of auto enrolment and senior staff might not feel qualified to make strategic pension-related decisions.

However smaller businesses, which may not have an HR or administration function, will also have to decide who takes on the responsibility of preparing the company for auto enrolment. The obvious choice would be the business owner(s), however adding such a big task to an already busy workload is likely to prove near impossible. Many businesses may be forced to hire at least one new member of staff to handle the auto enrolment process - both the set-up and its ongoing requirements - or turn to external help for support.



22 Institute of Directors, May 2013, "New IoD survey shows employers preparing for pensions auto enrolment"

See: <http://www.iod.com/influencing/press-office/press-releases/new-iod-survey-shows-employers-preparing-for-pensions-auto-enrolment>

23 The survey defines larger businesses as having 250 or more employees and smaller businesses as having fewer than 50 employees.

6. Economic impacts: regulatory compliance and pension contribution costs for businesses

This section estimates the total auto enrolment costs firms face. Estimates are given for the typical business in the UK with fewer than 500 employees; this covers the overwhelming majority of UK businesses.²⁴ Cebr provides estimates of the total auto enrolment costs which UK businesses face.

6.1 Explaining regulatory compliance and pension contribution costs

This section lays out the one-off set-up costs and annual pension contribution costs that firms face and how Cebr has estimated them for the UK as a whole and in different regions.²⁵

The likely cost of compliance with auto enrolment regulations

Using the time-burden of auto enrolment procedures (see previous section) as the main input, these estimates cover one-off set-up costs and annual contribution costs. They were computed using the parameters for time taken to complete the different stages of auto enrolment as summarised in Table 1 (in the previous section). Cebr estimated the likely cost of compliance with auto enrolment regulations on a UK-wide and regional basis.

Cebr derived the auto enrolment regulatory compliance cost estimates for the typical firm by multiplying the number of hours spent complying by the hourly productivity of the employee responsible for compliance. Cebr then estimated the total regulatory compliance costs by multiplying the number of businesses by the estimate of auto enrolment regulatory compliance cost for the typical business. Expressed mathematically, Cebr computed auto enrolment costs per firm as follows:

$$\begin{aligned} & \textit{Auto enrolment regulatory} \\ & \textit{compliance cost for typical firm} = \\ & \textit{Number of hours spent complying} \\ & \quad \times \\ & \textit{Hourly productivity of the employee} \\ & \textit{responsible for compliance} \end{aligned}$$

Using the results from this first estimation, total costs were estimated as follows:

$$\begin{aligned} & \textit{Total regulatory compliance costs} = \\ & \textit{Number of businesses} \\ & \quad \times \\ & \textit{Auto enrolment regulatory} \\ & \textit{compliance cost for typical firm} \end{aligned}$$

²⁴ Of all businesses in the UK with at least one employee, over 99% have fewer than 500 employees. See: Office for National Statistics, Business Population Estimates, 2012, Table 1.

²⁵ See appendices B and C for a complete methodological exposition of how regulatory compliance costs (Appendix A) and pension contribution costs (Appendix C) were calculated.

The one-off set-up costs associated with complying with auto enrolment regulations are:

- (i) knowing the firm's staging date
- (ii) nominating points of contact for staff
- (iii) developing a pension plan
- (iv) constructing the designated communications
- (v) liaising with the payroll provider - each pay period
- (vi) putting in place adequate business processes
- (vii) choosing a pension scheme for auto enrolment funds
- (viii) setting up pension scheme / liaising with pension provider
- (ix) classifying workers into categories
- (x) auto enrolling eligible employees
- (xi) processing opt outs, opt ins and joining requests and processing automatic re-enrolment after three years
- (xii) addressing staff queries about auto enrolment
- (xiii) registering with The Pensions Regulator

The estimates of one-off set-up costs cover all auto enrolment set-up costs from 1 October 2012 to 1 April 2017.²⁶

The cost of auto enrolment pension contributions (annual)

Cebr derived estimates for the likely cost of annual auto enrolment pension contributions by estimating the proportion of the total wage bill in any given sector or region which will be eligible to be paid into an auto enrolment-based pension. This was then multiplied by the percentage of employee wages which employers are required to contribute into a pension under the auto enrolment scheme. All costs estimates are for 2018, when auto enrolment will be fully up and running.²⁷

The estimates of businesses' auto enrolment pension contributions are presented across the UK's different regions. The auto enrolment-related pension contribution estimates are presented for 2018 because that is the first year when the employees of all businesses will be enrolled. This means that 2018 is the first year when the full annual cost of pension contributions, under the completely rolled-out auto enrolment programme, is applicable.²⁸

Cebr's analysis accounts for the timings with which auto enrolment payments will come on stream. Specifically, it accounts for the facts that:

- (i) Upon their staging date, businesses will be required to make a pension contribution equivalent to at least 1% of an employee's wages (where wages are above the eligibility threshold).
- (ii) Thereafter, businesses' required contribution will gradually rise to at least 3% of employee income (again above the eligibility threshold).

26 These are the first and last staging dates for UK businesses of different sizes.
See: <http://www.thepensionsregulator.gov.uk/employers/staging-date-timeline.aspx>

27 All existing businesses will have had their staging dates for auto enrolment by 1 April 2017.
See: <http://www.thepensionsregulator.gov.uk/employers/staging-date-timeline.aspx>

28 These auto enrolment-related pension contribution costs will apply to all businesses as they are all required/will all be required to participate in the auto enrolment scheme. However, businesses with existing pension schemes may simply transfer some or all of their pension contributions to the auto enrolment scheme after their staging date, implying no overall rise in their pension contribution costs. Employees may opt-out of the auto enrolment scheme and some employees may opt-in. Because employees' opt-in and opt-out decisions cannot be perfectly predicted in advance, this leads to some uncertainty around the estimates presented in this section.

6.2 UK-wide auto enrolment cost estimates

Cebr estimates there will be 1.26 million businesses with between one and 500 employees in the UK in 2018. This section presents Cebr's estimates for the auto enrolment costs which those businesses will face. The headline estimates are as follows:

1. At a UK-wide level one-off auto enrolment set up costs are estimated to range from an average £8,900 for the very smallest firms (with one-four employees) to an average of £22,300 for the largest firms (with 500 employees). Small-medium sized firms, with roughly 100 employees, can expect one-off costs of £12,600. These costs are expected to be £15,600 for businesses with approximately 250 employees.
2. Regional variations in these one-off set-up costs occur due to changing labour costs in different parts of the UK. In London, these estimates rise to £11,300 for the smallest firms (with one-four employees) and £28,300 for the largest firms (with 500 employees).

Aggregating across all businesses in the UK:

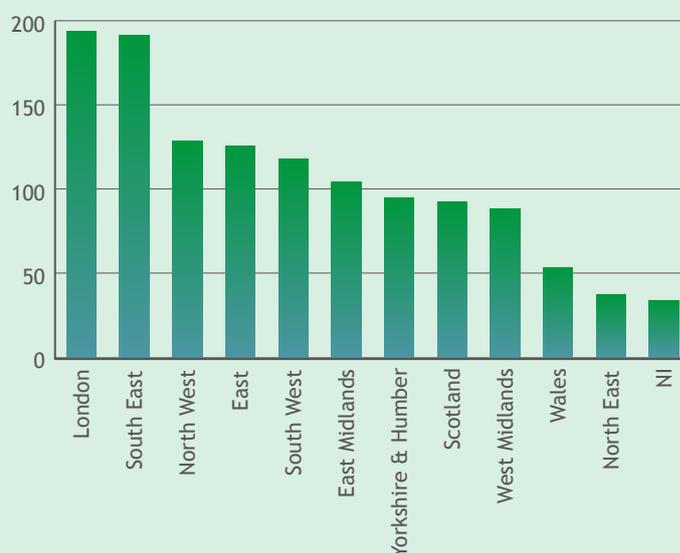
3. Total one-off set-up costs for all instances of auto enrolment over 2012-17 are expected to be £15.4 billion.
4. The total cost of annual pension contributions to these UK businesses is expected to be £11.6 billion in 2018.

Note that the estimated per business costs above are higher for firms with relatively large payrolls and smaller for businesses with relatively small payrolls. Cebr's modelling has taken this into account.

6.3 Regional auto enrolment cost estimates: regulatory compliance costs

Cebr estimates there will be 1.26 million businesses in the UK in 2018.²⁹ The expected number of businesses in each region is shown in Figure 1.

Figure 1: Businesses per UK region (thousands, 2018)



Cebr projection for number of businesses with between one and 500 employees

Source: Office for National Statistics ASHE 2012, Creative Auto Enrolment data, Cebr analysis

London is expected to be the region with highest number of businesses, 194,000, in 2018 - closely followed by the South East. The North East and Northern Ireland are expected to have the smallest number of businesses in 2018, with 37,000 and 34,000 respectively.

²⁹ This figure refers to businesses with between one and 500 employees.

In each region, Cebr has estimated the one-off set-up costs for the typical instance of auto enrolment over 2012-17.

Figure 2 provides Cebr's estimates of these costs for businesses in each region and reports UK-wide costs.

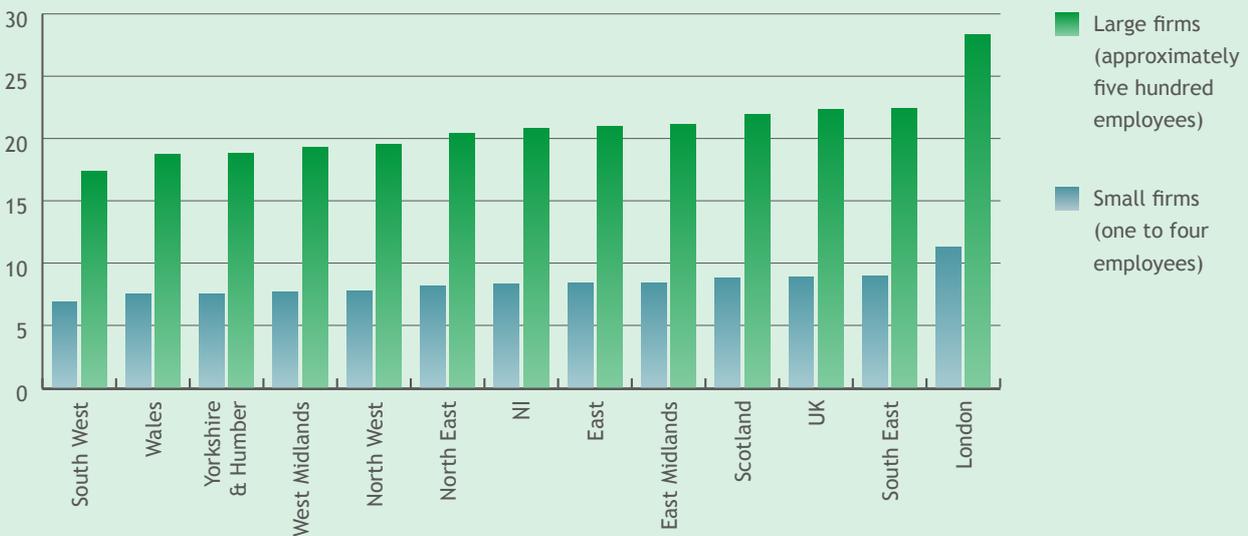
For the large businesses, those with roughly 500 employees, one-off set up costs are highest in London at an average of £28,300 as labour costs are highest here. By contrast, these costs are the lowest in the South West, averaging £17,400 for a business with 500 employees.

For the typical large business in the UK, these set-up costs are expected to be £22,300.

These per business one-off auto enrolment set-up costs are lower for smaller businesses, as they have fewer staff to enrol and often have less complex business structures.

For the typical firm with one to four employees this cost will average £11,300 in London and £6,900 in the South West.

Figure 2: Per firm auto enrolment one-off set-up regulatory costs, by region for small and large firms (thousands of pounds, 2018)



Source: Office for National Statistics ASHE 2012, Creative Auto Enrolment data, Cebr analysis

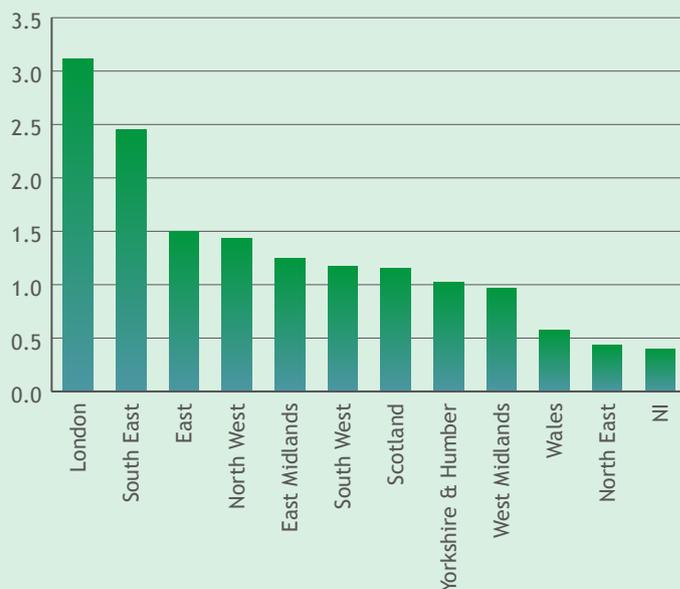
Figure 3 provides Cebr’s estimates of these costs when aggregated up for all the business in each region.

Cebr’s regional estimates of the total cost of auto enrolment one-off set-up regulatory compliance for all businesses are driven by the number of businesses in each region and the costs of auto enrolment for each firm.

The total cost of all auto enrolment set-up procedures over 2012-17, is expected to be highest in London. The total one-off set-up costs of auto enrolment for businesses in London are expected to be £3.1 billion, over 2012-17. These total costs are expected to be highest in the capital owing to the large number of businesses there and the relatively high auto enrolment set-up costs which each firm in the capital experiences, owing to high labour costs. After London, the region with the next highest total set-up costs is the South East, at £2.4 billion.

At the other end of the spectrum these total set-up costs are expected to be lowest in the North East and Northern Ireland, at £430 million and £400 million respectively. These low aggregate costs are due to the relatively modest number of businesses in these regions and their comparatively low wages. Set-up costs are expected to be lowest in the North East and Northern Ireland, at £190 million and £180 million respectively. This is due to comparatively low wages and the comparatively low number of businesses in those regions relative to London.

Figure 3: The total costs of auto enrolment one-off set-up regulatory compliance, by region (billions of pounds)

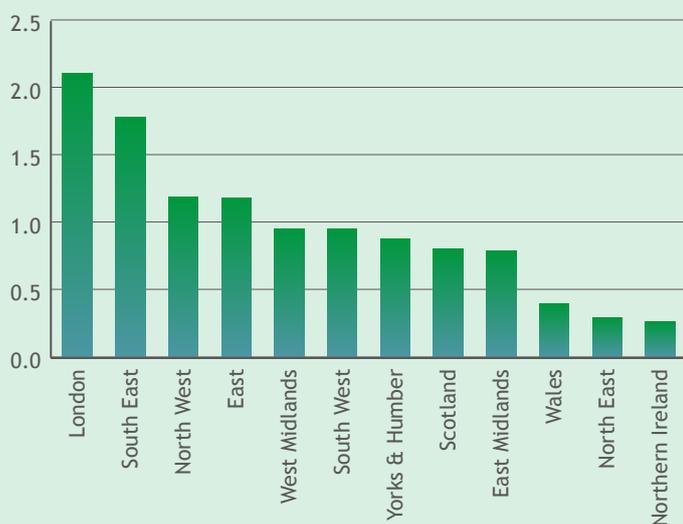


Cebr projection for the total one-off set-up costs of all instances of auto enrolment over 2012-17 (billions of pounds) for all firms in a region with at least one employee but fewer than 500 employees

Source: Office for National Statistics ASHE 2012, Creative Auto Enrolment data, Cebr analysis

6.4 Regional auto enrolment cost estimates: annual pension contribution costs

Figure 4: The total cost of auto enrolment pension contributions, by region (billions of pounds, 2018)



Cebr projection for number of businesses with at least one employee but fewer than 500 employees

Source: Office for National Statistics ASHE 2012, Creative Auto Enrolment data, Cebr analysis

This section digs down below the UK-wide findings, estimating the total annual pension contribution costs in the different regions in 2018.

Figure 4 presents Cebr’s estimates of the total annual employer pension contribution cost of the auto enrolment pension scheme, in 2018, for businesses by region.

In 2018, total auto enrolment pension contributions are expected to be highest in London at £2.1 billion due to the high number of small businesses and high wages in the capital.³⁰ London is followed by the South East, which is expected to have total contributions of £1.8 billion. By contrast, total auto enrolment pension contributions are expected to be lowest in Northern Ireland, the North East and Wales. This is due to the comparatively low number of small businesses in these regions and their relatively low wages.³¹

30 See: Office for National Statistics, Business Population Estimates, 2012, Table 8. The region with the most businesses is London, with 25% more medium-sized businesses than the South East (which is the region with the second highest number of mid-sized businesses) and Office for National Statistics, ASHE, 2012, Regional Tables, Table 10.

31 See: Office for National Statistics, Business Population Estimates, 2012, Table 8 and ASHE, 2012, Regional Tables, Table 10.

7. Impact on the advisory market

This section estimates the potential impact of auto enrolment on the UK advisory market.³² Auto enrolment provides a huge opportunity for the advisory market. Guiding customers through the process and arming them with the knowledge they need has the potential to bring in significant revenue for advisors. However if the advisory market is not adequately prepared, their revenue and customer pool could be at risk. This section provides Cebr's estimate of how much revenue could be "at risk" each year in the advisory market over 2015-18 due to the roll out of auto enrolment and the potential liabilities firms face when needing to provide best practice advice and support services.³³

The advisory market comprises firms which other businesses will use when trying to comply with auto enrolment regulation. For the purposes of Cebr's modelling procedure, firms in the advisory market are taken to be in any of the following three sectors:

- Accounting, auditing, bookkeeping and tax consultancy.
- Head office support and financial management, i.e. those involved in outsourcing of financial management or providing financial management consultancy and businesses involved in outsourcing non-strategic head office activities.
- Document preparation, i.e. those involved in helping businesses communicate with their employees through communications planning, delivery and monitoring. These businesses would also help to ensure auto enrolment related communications met statutory requirements.³⁴

Using official statistics, Cebr derived the total revenue of this defined, three-sector advisory market for 2012.³⁵ The size of the market was then projected forward until 2018.³⁶

There are other trusted advisers as well who businesses are likely to turn to for guidance on auto enrolment, such as companies that provide them with payroll support, or HR consultancy.

There is also a variety of businesses in other roles that employers will rely on for advice, for example, those in payroll functions or companies providing HR consultancy advice. Independent Financial Advisers (IFAs) are bound to be asked for help. It is difficult at this stage to define the role they will play in guiding companies on implementing auto enrolment, and so the value of revenue at risk for these firms has not been included in the modelling within this report. However, any business which struggles with implementing auto enrolment, and particularly those who go on to find they may have got something wrong, are likely to ask questions of the advisers they may have expected to support them through the process.

32 Unlike all other sections of this report, the estimates given in this section relate to all businesses (in the advisory market), not just those with between one and 500 employees.

33 Unlike all other sections of this report, all estimates given in this section are in nominal terms.

34 Cebr's estimates are based on the assumption that, over 2015-18, some 10% of the revenue of businesses in these advisory market sectors will either: (i) be directly drawn from work relating to auto enrolment or (ii) be possible due the reputational benefits firms get from having successfully completed auto enrolment-related projects. Consequently, Cebr's analysis is based on the assumption that 10% of revenue in these sectors will be at risk over 2015-18 due to their exposure to auto enrolment. Cebr's results are sensitive to this assumption.

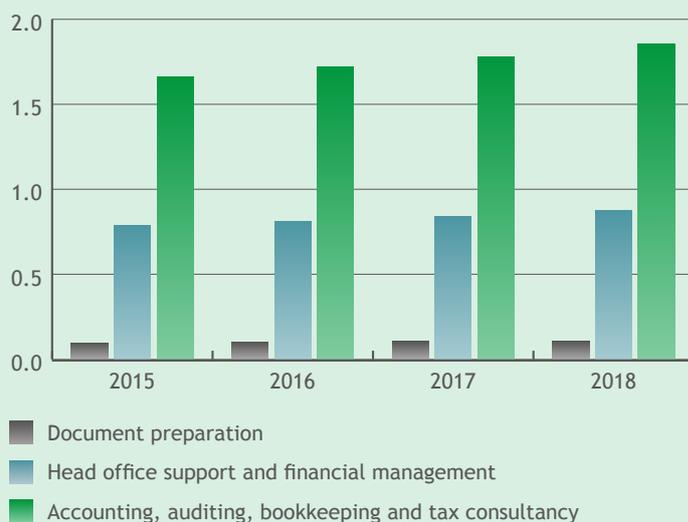
35 This was derived using Office for National Statistics data: (i) Supply and Use Tables, 2011 (Intermediate Consumption Tables for 2011) and (ii) Turnover and Orders in Production and Services Industries (TOPSI), 2012, Tables 13 and 15. Intermediate demand was used as a proxy for revenue. The Supply and Use data went up to 2011; these were extended to 2012 using the TOPSI data.

36 This projection was based on Cebr's in-house forecasts of how the UK economy will develop over 2013-18.

After 1 April 2015 all medium and large firms will have had their staging dates for auto enrolment with the remaining businesses having to undergo auto enrolment by 1 April 2017.³⁷ Consequently, over 2015-18, auto enrolment will be widely-known and widely-implemented. Any advisory firm which performs poorly in the space risks losing not only its revenue derived from auto enrolment-related activities, but also revenue from the other services it provides due to reputational damage. Due to this auto enrolment-related reputational risk, and the fact that businesses will draw some of their revenue directly from auto enrolment related work, Cebr's modelling assumes that 10% of the revenue of each business in the advisory market will be at risk over 2015-18.³⁸

Figure 5 shows the total revenue which Cebr expects will be at risk in each of the three key sectors of the advisory market. Estimates are presented for each year of 2015-18. The amount of revenue at risk is highest in the accounting, auditing, bookkeeping and tax consultancy sector. In that sector, £1.66 billion of revenue is expected to be at risk in 2015, rising to £1.86 billion by 2018. Cebr expects the document preparation sector would be engaged in preparing and distributing auto enrolment-related communications to businesses' employees. This sector is expected to have the lowest amount of revenue at risk. In the document preparation sector, Cebr forecasts £100 million of revenue will be at risk in 2015, rising to £110 million by 2018.

Figure 5: Business at risk in different sectors of auto enrolment advisory market over 2015-18 (billions of pounds, nominal)



Source: Office for National Statistics ASHE 2012, Creative Auto Enrolment data, Cebr analysis

Between these two extremes, in 2015, £790 million is expected to be at risk in the head office support and financial management sector. This is forecast to rise to £880 million by 2018.

37 See: <http://www.thepensionsregulator.gov.uk/employers/staging-date-timeline.aspx>

38 Cebr's estimates of advisory market, auto enrolment-related revenue at risk over 2015-18 are sensitive to the assumptions that: (i) 10% of revenue in each advisory market sector will be at risk due to auto enrolment and (ii) the advisory market sectors listed above are an accurate portrayal of those which will actually sell services relating to auto enrolment.

As each sector of the advisory market grows, the estimated total revenue at risk, aggregated across all sectors of the market, also increases. Figure 6 aggregates these sectoral results, estimating the amount of revenue at risk in the auto enrolment advisory market as a whole over 2015-18. In 2015, Cebr forecasts that £2.5 billion will be at risk in the advisory market. This is expected to rise to £2.8 billion by 2018 as the market grows. In the advisory market, Cebr forecasts that the total amount of revenue at risk will be 11.5% greater in 2018 than in 2013 in nominal terms.

Figure 6: Business revenue at risk for the auto enrolment advisory market over 2015-18 (billions of pounds, nominal)



Source: Office for National Statistics ASHE 2012, Creative Auto Enrolment data, Cebr analysis

While this analysis has focussed on the potential auto enrolment-related risks to businesses in the advisory market, it is important to note that there are gains to be had too. Auto enrolment affects 1.26 million businesses, many of which will require assistance with one or several aspects of its implementation. Hundreds of thousands of businesses may find auto enrolment means they need assistance with document preparation (when preparing communications for their employees) or additional bookkeeping support (when preparing auditable records). Overall, auto enrolment may bring about a significant increase in demand for the services of firms in the advisory sector supply - leading to potentially large business gains too.



8. Finding your way out of the auto enrolment maze

This report has provided Cebr's best estimate of the different costs which businesses in the UK will face as auto enrolment comes on stream over the coming years. These include costs which are, to some extent, quantifiable: one-off auto enrolment set-up and annual pension contributions costs. Nevertheless, there is a degree of uncertainty surrounding these costs for the individual business, with those that have prepared for auto enrolment and researched their obligations being likely to find the process less onerous than those that have not. Other costs are more nebulous and difficult to estimate in advance: "How prepared is a given business to choose a pension scheme?"

Smaller businesses, especially in cases where staff have little experience differentiating between different investment products or discussing investments with their employees or third parties, are likely to find auto enrolment challenging. The Pensions Regulator is genuinely out to help businesses sign up to and manage their auto enrolment pension schemes successfully. However, the Regulator's guidance notes number hundreds of pages and may prove impenetrable for a large number of businesses.

The constant assessment of employees, updating business processes, deciding on suitable providers, liaising with providers and the Regulator, not to mention actually paying the money into a pension scheme - these are just some of the steps involved in the huge task of getting a business ready for auto enrolment. Many firms may feel overwhelmed by the myriad of new obligations they face under auto enrolment, especially when they consider the need to keep track of the changing status of employees and regulatory requirements over time. If they do decide to take on the process unaided, they face the risk of fines and choosing poor pension scheme options, possibly ones which do not meet the minimum legal requirements.

But while auto enrolment may present a challenge, it is not insurmountable. There are simple, tangible steps that employers can take to start to demystify the process and gain a fuller understanding of exactly what will be involved for their company.

- 1. Identify their staging date:**
The Pensions Regulator's website is a good starting point and will help businesses to pinpoint, based on company size, the time they have left until they must have implemented auto enrolment for all staff.
- 2. Get to grips with what auto enrolment is about:**
With over 250 pages of notes available from The Pensions Regulator, the scale of the guidance alone may feel daunting, but it's crucial that businesses understand the changes and what they mean, especially if they're attempting to handle all auto enrolment activity themselves.
- 3. Seek external support and guidance:**
Whether speaking to a trusted business adviser or seeking the expert advice of a company that specialises in implementing auto enrolment solutions for businesses, an external perspective will prove invaluable in helping businesses understand their own individual challenge.

Above all, don't ignore the issue. Auto enrolment has the potential to be onerous, both in terms of cost and administration, but forewarned is forearmed, and no business stands to benefit from putting off tackling the issue.

While undoubtedly challenging, with a little thought, preparation and guidance, businesses can find their way out of the auto enrolment maze.

Appendix A: Defining workers

Employers are responsible for defining their workers into different categories. A worker is defined in the legislation as any individual who:

- Works under a contract of employment (an employee) or
- Has a contract to perform work or services personally and is not undertaking the work as part of their own business.

Once workers are established, employers must:

- Identify the worker's age
- Identify whether the worker is working or ordinarily works in the UK under their contract
- Assess the workers earnings.

This assessment allows employers to categorise their workers into three groups as highlighted below.

Employees will be automatically enrolled if they are earning above £9,440 and are aged between 22 and the state pension age. However, these employees, known as "Eligible Jobholders", may choose to opt out of the scheme.

A second category of workers, called "Non-Eligible Jobholders" (aged between 16 and 21 or the state pension age and 74 and earning over £9,440, or, aged 16 to 74 and earning between £5,668 and £9,440) may opt in to the scheme, but will not be automatically enrolled. If Non-Eligible Jobholders do opt in their employer is required to pay contributions in line with those for Eligible Jobholders.

Employees earning less than the set minimum earnings (£5,668 for 2014/15) may elect to join the employer's pension but employers will not have to contribute for these employees (until such time as the employee becomes eligible, at which time, the employer must start to contribute).

Cebr's model assumes that no "eligible jobholder" opts out and that all "non-eligible job holders" opt in. It also assumes that employers do not choose to contribute to the pensions of "entitled workers" who have opted in. Note the eligibility and entitlement thresholds are reviewed annually by the Department for Work and Pensions.

See: The Pensions Regulator, n.d., "Automatic enrolment earnings threshold" and The Pensions Regulator, April 2013, "Resource: The different types of worker".

These are available at:

<http://www.thepensionsregulator.gov.uk/employers/automatic-enrolment-earnings-threshold.aspx> and
<http://www.thepensionsregulator.gov.uk/docs/pensions-reform-resource-the-different-types-of-worker.pdf>

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Appendix B: Estimating regulatory compliance costs

Cebr derived these estimates for the likely cost of compliance with auto enrolment regulations for the typical firm in each region by multiplying:

- (i) The number of hours spent complying by
- (ii) The hourly productivity of the employee responsible for compliance.

These costs were derived for businesses with one to 249 employees and, separately, those with 250-499 employees. It was necessary to treat these differently-sized businesses separately in the modelling because of the different costs structures they face when implementing auto enrolment. For example, while the additional employees a large firm has to consider could push costs up, larger companies are also likely to have more experience implementing employee pension schemes and as such could see greater time efficiencies, leading to lower costs-per-employee for administration.

For businesses of either size, information on (i) was derived using information provided by Creative Auto Enrolment; information on (ii) pertaining to 2012 was derived using official Annual Survey of Hours and Earnings (ASHE).³⁹ Cebr's analysis took account of the time-requirements placed on the six types of employee responsible for managing auto enrolment: chief executives, functional directors, HR administrators and directors and finance administrators and directors.⁴⁰

Cebr's initial estimates were for 2012. The 2018 estimates (which have been presented above) were derived by inflating the 2012 ASHE-based productivity estimates by their in-house measure of private sector productivity. This yielded estimates of productivity for 2018 and, consequently, their 2018 estimates of the likely cost of compliance with auto enrolment regulations for the typical firm.

The total 2018 cost of compliance was derived by multiplying:

- (a) The estimated likely cost of compliance with auto enrolment regulations for the typical firm in each region in 2018 by
- (b) The estimated number of firms in each region by 2018.

The derivation of point (a) was explained above. Point (b) was derived using official estimates of the number of businesses (broken down by size) in each UK region in 2012, which Cebr then inflated by their in-house estimates of business population growth until 2018.

Once the results had been calculated for businesses of different sizes, the results were aggregated to arrive at regional totals and a UK wide total.

³⁹ See: Office for National Statistics, ASHE, 2012, Regional Tables, Table 10.

⁴⁰ IT workers were included for medium firms in the area of setting up adequate business processes.

Appendix C: Estimating pension contribution costs

Cebr derived the above estimates for the likely total auto enrolment pension contributions of different sized businesses, across regions, by:

- (i) Estimating the proportion of workers in any given region which will be auto enrolled into or opt into an auto enrolment-based pension fund ⁴¹
- (ii) Estimating the total income in any given region which will be paid into an auto enrolment-based pension fund (using the wages of workers in each region at different income deciles).
- (iii) Multiplying this (ii) by the percentage of employee wages which employers are required to contribute into a pension under the auto enrolment scheme ⁴²

This yielded the average annual employer auto enrolment pension contribution per worker for 2018. These costs were derived for businesses with one to 249 employees and, separately, those with 250-499 employees. It was necessary to treat these differently-sized businesses separately in the modelling because of the different auto enrolment-related costs structures they face. The results were then aggregated to arrive at regional totals and a UK wide total.

Cebr's estimation procedures made use of information provided by Creative Auto Enrolment; Office for National Statistics, ASHE, 2012, data; Office for National Statistics, Business Population Estimates, 2012, and official data on auto enrolment requirements. ⁴³



41 Workers must earn more than the minimum tax free allowance to be eligible for auto enrolment.

42 This is 1% upon the staging date of any given business, gradually rising to 3%.

43 See: <http://www.thepensionsregulator.gov.uk/employers/staging-date-timeline.aspx>

Authorship and disclaimer

This report was researched and written by Daniel Solomon, an economist at the Centre for Economics and Business Research (Cebr). Rob Harbron, a Cebr senior economist, also contributed to the research. The research and report writing was overseen by Charles Davis, Cebr's Head of Macroeconomics.

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London, 2013

