EXPLANATORY MEMORANDUM TO

THE OCCUPATIONAL PENSION SCHEMES (ADMINISTRATION, INVESTMENT, CHARGES AND GOVERNANCE) (AMENDMENT) REGULATIONS (NORTHERN IRELAND) 2023

S.R. 2023 No. 62

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Communities to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.

1.2 The Statutory Rule is made under sections 109(6)(b) and (7) and 177(2) to (4) of the Pension Schemes (Northern Ireland) Act 1993, Articles 35(4) and (7) and 166(1) to (3) of the Pensions (Northern Ireland) Order 1995 and sections 42 and 51(6) of, and paragraphs 1 and 2 of Schedule 18 to, the Pensions Act (Northern Ireland) 2015 and is subject to the confirmatory procedure.

2. Purpose

2.1 These Regulations amend existing Regulations to require trustees or managers of most defined contribution occupational pension schemes to publish their policies on investment in illiquid assets (assets that cannot easily or quickly be sold or exchanged for cash) and information about the types of assets in which the scheme has investments. They also provide that specified performance-based fees will fall outside of the regulatory charge cap calculation.

3. Background

3.1 These Regulations further amend a number of sets of existing Regulations relating to the administration and governance of occupational pension schemes. The aim is to ensure that occupational DC pension scheme members benefit from efficient and operationally resilient administration, sound investment governance, and access to innovative and diversified investment strategies.

3.2 The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 are amended to –

- require trustees or managers of relevant occupational pension schemes to report in their annual chair's statement on the percentage of assets allocated to different investment asset classes within their default arrangements (or, in the case of collective money purchase schemes within the whole scheme). Trustees or managers will need to comply with this from the first scheme year ending after 1st October 2023;

- require schemes in scope to calculate and disclose in the annual chair's statement any specified performance-based fees incurred in the scheme year. This applies from the first scheme year to end after 6th April 2023.

3.3 The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005 are amended to –

- require trustees of relevant schemes to include an explanation of their policies on investing in illiquid assets in the statement of investment principles (SIP) that they are required to produce under regulation 2A of the Investment Regulations. They set out the proposed aspects of a scheme's policy on illiquid investments that the trustees will be required to disclose, including an explanation of the types of illiquid assets in which investments will be held, and define "illiquid assets" for the purposes of the Regulations;

- require trustees of qualifying collective money purchase schemes to include an explanation of their policies on investing in illiquid assets in the SIP that they are required to produce under Article 35 of the Pensions (Northern Ireland) Order 1995. This is to reflect the fact that collective money purchase schemes do not have default investment funds. Trustees are required to include this information in the first updated version of their SIP to be produced after 1st October 2023 or by 1st October 2024 at the latest.

3.4 The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014 are amended to require relevant occupational pension schemes to publish the section of the annual chair's statement which covers the new disclosures about asset allocation and specified performance-based fees on a free to access website.

3.5 The Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015 are amended to add performance-based fees to the list of charges that fall outside the charge cap, and make related consequential and transitional provision. The aim is to make it easier for trustees to access a broader range of illiquid assets that could benefit savers.

3.6 In complying with the new requirements to disclose their asset allocations, and when trustees and managers exclude specific performance-based fees from the charge cap, trustees and managers must have regard to any guidance issued by the Department by virtue of paragraphs 1 and 2 of Schedule 18 to the Pensions Act (Northern Ireland) 2015 and section 109(3A) of the Pension Schemes (Northern Ireland) Act 1993. The guidance is available from the Department for Communities, Social Security Policy, Legislation and Decision Making Services, Level

6, Causeway Exchange, 1-7 Bedford Street, Belfast BT2 7EG or from the website: https://www.communities-ni.gov.uk/articles/pensioninformation

4. Consultation

4.1 There is no requirement to consult on these Regulations. They make in relation to Northern Ireland only provision corresponding to provision contained in regulations made by the Secretary of State for Work and Pensions in relation to Great Britain.

5. Equality Impact

5.1 In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on the legislative proposals for these Regulations. The Department has concluded that they would not have significant implications for equality of opportunity and considers that an Equality Impact Assessment is not necessary.

6. Regulatory Impact

6.1 A Regulatory Impact Assessment is attached in the Annex to this Explanatory Memorandum.

7. Financial Implications

7.1 None for the Department.

8. Section 24 of the Northern Ireland Act 1998

8.1 The Department is content that these Regulations comply with section 24 of the Northern Ireland Act 1998 (Convention rights, etc.).

9. EU Implications

9.1 Not applicable.

10. Parity or Replicatory Measure

10.1 The Great Britain Instrument is the Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023 (S.I. 2023/399) which comes into force on 6th April 2023. Parity of timing and substance is an integral part of the maintenance of single systems of social security, child support and pensions in line with section 87 of the Northern Ireland Act 1998. It was therefore necessary to make the Regulations during the period of interregnum.

REGULATORY IMPACT ASSESSMENT

THE OCCUPATIONAL PENSION SCHEMES (ADMINISTRATION, INVESTMENT, CHARGES AND GOVERNANCE) (AMENDMENT) REGULATIONS (NORTHERN IRELAND) 2023

The costs and savings outlined in this Regulatory Impact Assessment (RIA) are calculated on a UK-wide basis.

The policy background

1. Following consultation in February 2019[1] on proposals to facilitate investment by Defined Contribution (DC) schemes in less liquid assets, such as smaller and medium sized unlisted firms, housing, green energy projects and other infrastructure, it is proposed to introduce requirements for relevant occupational DC schemes to report their policies on illiquid investment, and to publicly disclose their asset allocations in their annual Chair's Statement.

2. For most DC schemes with 12 or more members, the proposed regulations will require them to report their policy on illiquid investments in their default Statement of Investment Principles (SIP) and disclose the allocation of assets in their default funds. As Collective Money Purchase (CMP) schemes do not have default funds, they will be required to report their policy on illiquid assets in their main SIP. This requirement will only apply to CMP schemes with 100 or more members, as smaller schemes are not required to produce a main SIP. CMP schemes with 12 or more members will be required to disclose the allocation of assets held in the scheme as a whole.

3. In the last few years, there has been a noticeable increase in DC schemes' considerations[2] of the benefits that may arise from a more diversified investment strategy. However more can be done to demonstrate to trustees that illiquid assets are an important part of this diversification and should be seriously considered as they could potentially provide members with higher net return[3] .

Rationale for Intervention

4. Pension savers often have limited access to important information on their retirement savings, such as where their money is being invested. If they wish to obtain information about asset allocations and policies on investment in illiquid assets, they may be required to request this information from their provider, leading to an asymmetric information market failure and lack of transparency in the market.

5. Employees are enrolled in pension schemes by their employers. This creates a principal agent problem within the market, as there is uncertainty employees will be enrolled in a scheme that aligns with their best interests. The disclosure of schemes' illiquid policies and asset allocations will improve the availability of information to members and employers and provide them with certainty that trustees are giving proper consideration to the full range of

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[1] Investment Innovation and Future Consolidation: A Consultation on the Consideration of Illiquid Assets and the Development of Scale in Occupational Defined Contribution schemes https://www.communities-ni.gov.uk/consultations/defined-contribution-pensions-investment-and-consolidation
[2] Pensions Expert: DC schemes target private markets https://www.pensions-expert.com/Investment/DC-schemes-target-private-markets-as-room-for-illiquid-assets-increases?ct=true
[3] A roadmap for increasing productive finance investment https://www.bankofengland.co.uk/-/media/boe/files/report/2021/roadmap-for-increasing-productive-finance-investment.pdf?la=en&hash=F92ADDFB1B815895AAFCC21CE6A29C5B0A74D6B7

investment opportunities on offer, fulfilling trustees' fiduciary duty requirements to create an investment approach that aligns with members' best interests.

6. Intervention is necessary as it is currently estimated that less than 2 percent of the schemes in scope for asset allocation disclosures currently report this data in the proposed standardised format voluntarily[4] , emphasising the lack of comparable and consistent information available to most members and employers which will likely continue if there is no intervention.

Description of options considered

Policy Option 0 - Do Nothing

7. Currently, it is estimated that less than 2 percent of schemes in scope for asset allocation disclosures have voluntarily reported their asset allocations in the proposed format. As disclosure is not currently uniform, it is difficult for employers to compare offerings across schemes, but more importantly for members to compare across the various pots they may hold.

8. By doing nothing, trustees may not be having the conversations needed to fully consider all investment opportunities available or understand the benefits and value that illiquid assets could bring to their portfolios and there will continue to be a lack of information available to most members. Where trustees are having these conversations already, they may not be making their members aware of them. Allowing this to continue would mean that only the members in the minority of schemes that do publish this information may be aware of it.

9. It is broadly agreed that members should have the opportunity to better engage with their pension, understand how their money is invested and be aware of any pertinent information about their pensions.

10. The do nothing option means that trustees may not be having the conversations needed to fully consider all investment opportunities available or understand the benefits and value that illiquid assets could bring to their portfolios.

Policy Option 1: Amend the Scheme Investment and Scheme Administration regulations to introduce new disclosure requirements

11. This option involves requiring all relevant DC schemes in scope to disclose and explain their policies on illiquid investment and their asset allocations.

12. If the information was disclosed in a clear and consistent manner, this would improve their understanding of the concept of illiquid investment (explanation would be a part of the SIP policy disclosure requirement), and the potential risks and benefits it could bring to their overall pension savings. The development of a standardised and accessible disclosure requirement to encourage all schemes to regularly provide the same, clear data to employers and members will aid understanding of where their pension is being invested and the value they are receiving.

13. Requiring schemes to provide this information directly to members and employers through their Chair's Statements and SIPs will result in members and employers getting all the information they need without having to make individual requests. This will assist them in

[4] Corporate Adviser's Master Trust & GPP's Defaults Report 2022 https://corporate-adviser.com/research/

understanding how their pension is being invested, the impact these decisions could have on their retirement outcomes and that their trustees are giving consideration to the full range of investment opportunities on offer.

14. It is expected that this will further educate trustees, increase conversations around investment in productive finance, and potentially change the culture of DC investment towards focussing on overall value and returns to members, rather than just cost.

Policy Option 2: Mandating investment in illiquid assets

15. Some industry stakeholders have advocated for a stronger position on exploration of illiquid assets. They cite "comply or explain" – requiring pension schemes to allocate a certain percentage of total assets towards private markets or explain to regulators why they choose not to – as the approach they believe should be implemented. Any attempt to force private pension schemes to invest in specific asset classes or sectors may result in a market distortion, lead to poorer returns for DC scheme members and cut across both the fiduciary duty to which trustees must adhere and the independence of pension scheme trustees from policy objectives. Requiring disclosure of investment policies and asset allocations without mandating specific allocations, can encourage greater transparency, diversification and competition across industry without having to intervene in independent investment decisions that should only be taken by trustees.

Policy Option 3 and 4: Alternative to legislation – Guidance only

16. Following the Competition and Markets Authority (CMA) report in 2019, there was a commitment to take forward the CMA recommendations and to pass legislation which brings the CMA Order into pensions law. Given the public commitment, and to ensure there are not dual regulatory bodies (CMA and the Pension Regulator (TPR)) working with occupational pension schemes, option 3 alternative to legislation is not appropriate.

17. An alternative to legislation would be to either:

    1) Produce non-statutory guidance recommending that trustees voluntarily provide this information to their members, as less than 2 percent of schemes already do, or

    2) Ask that TPR provides updated guidance to trustees including that they should voluntarily publicly disclose their policies on illiquid investment and their default asset allocations. This would be subject to TPR agreement.

18. However, unless a duty is contained in legislation, with consequential actions for non-compliance, a certain degree of non-compliance exists in adhering to non-regulatory measures and could lead to inconsistency in approaches and coverage giving employers and members an incomplete picture. This therefore indicates that further action is required.

Preferred Option

19. Given the above analysis the preferred Option is **Policy Option 1 – Amend the Scheme Investment and Scheme Administration regulations to introduce new disclosure requirements.**

20. Assets that are less liquid have the potential to offer members higher net returns in the long-term, especially within a diversified portfolio that balances risk with opportunity[5,6,7]. They can also facilitate investment in key areas such as housing, infrastructure, environmental protection, and growth companies that lift the economy.

21. It is therefore proposed to require schemes to disclose their policy on investment in illiquid assets and for schemes to publicly disclose their asset allocations.

22. Trustees or investment managers will not be required to change their asset allocation as a result of new regulatory requirements, but rather to reflect on the decisions they have already made, and the decisions they will make, as part of their ongoing fiduciary duty to create an investment approach that works for members.

23. Low risk, passive investment in index trackers and other low-cost assets has led to good, stable returns for DC schemes for at least a decade but this will not necessarily continue into the future. These policy proposals find a good balance between protecting trustees' fiduciary duty whilst encouraging trustees to have more focussed discussions about assets that could bring better retirement outcomes to members as well as benefits to innovative sectors of the UK economy, regardless of their cost.

24. These measures also seek to encourage greater competition and innovation based on overall value for money in the DC market. If asset allocation becomes a standardised disclosure across industry, members, employers and investment consultants could compare a scheme's allocation alongside other key metrics, including net investment returns, costs and charges, and quality of service to make sure they are getting the best value possible. This will become a key component of the value for money being created with the Financial Conduct Authority (FCA) and TPR.

Preferred option: Summary of assessment of impact on business and other main affected groups

Impact on Business

Amendment to the Scheme Investment regulations

25. As a result of the amendment to the Scheme Investment regulations, the relevant schemes in scope (occupational DC trust schemes with 12 or more members, including hybrids and Collective Money Purchase (CMP) schemes with 100 or more members), henceforth 'relevant schemes', will be impacted in the following ways:

- One-off familiarisation cost to trustees of 'relevant schemes' to read and understand the change in regulations and accompanying guidance.
- One-off cost to 'relevant schemes' to produce an initial explanatory statement on their policy towards investment in illiquid assets.

[5] Government Actuary's Department Investment News December 2016
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/575842/Nov_2016_update.pdf
[6] Corporate Adviser Master Trust and GPP Defaults Report 2019
https://corporate-adviser.com/research/
[7] A Roadmap for Increasing Productive Finance
https://www.bankofengland.co.uk/-/media/boe/files/report/2021/roadmap-for-increasing-productive-finance-investment.pdf?la=en&hash=F92ADDFB1B815895AAFCC21CE6A29C5B0A74D6B

- Ongoing cost to ‘relevant schemes’ to update their explanatory statement in their Statement of Investment Principles at least every three years.

Introducing new asset allocation disclosure regulations

26. As a result of the new asset allocation disclosure regulations, the relevant schemes in scope (occupational DC trust schemes with 12 or more members, including hybrids and CMP schemes), henceforth ‘relevant schemes’, will be impacted in the following ways:

    - One-off familiarisation cost to trustees of ‘relevant schemes’ to read and understand the change in regulations and accompanying guidance.
    - One-off cost to ‘relevant schemes’ to produce asset allocation breakdowns and information in the Chair’s Statement.
    - Ongoing cost to ‘relevant schemes’ to update their asset allocation breakdowns and information in their Chair’s Statement annually.

Impact on the Pensions Regulator

27. The Pensions Regulator (TPR) is responsible for monitoring compliance with existing Statement of Investment Principles regulations and will be responsible for monitoring compliance with new asset allocation disclosure regulations. TPR will be impacted in the following ways:

    - One-off set up cost for TPR to read and understand updated and new regulations and update their guidance to trustees.
    - Ongoing cost to monitor compliance with regulations and identify non-compliance and take enforcement action where necessary.

Impact on Members and Employers

28. As a result of the regulations, members and employers of ‘relevant schemes’ will be impacted in the following ways.

29. Members and employers will benefit from an increase in the information they receive on how their and their employees’ pension fund is invested.

30. Any changes in asset allocations by ‘relevant schemes’ as a result of developing a new policy on illiquid assets may potentially increase diversification of assets and greater returns on investment for members. However, this is not a direct result of policy proposals. This is dependent on schemes taking action and changing their investment policies, in response to proposals.

Evidence Base

Costs to businesses of preferred option

Counterfactual

31. The counterfactual is the "do nothing" option. The counterfactual assumes that no schemes are currently disclosing their policy on illiquid asset, and less than 2 percent of schemes disclose their asset allocation breakdowns in the proposed format.

32. Given the large number of schemes in scope of both measures, it is considered disproportionate to check the Chair's Statement and Statement of Investment Principles of each scheme to confirm this counterfactual. It is expected that the counterfactual holds for the majority of schemes in scope based on a review of available information from the largest occupational DC trust pension schemes.

33. The size of impacts to business will vary from scheme to scheme. The impact will depend on factors including the investment consultancy used by each scheme, any potential economies of scale and the extent of changes required compared to scheme's current practices.

34. 'Relevant schemes' in scope of Illiquid statement policy proposals who already have an illiquid asset investment policy may experience lower costs from the new regulations, relative to schemes without an existing policy on illiquid asset investment.

35. 'Relevant schemes' in scope of asset allocation disclosure policy proposals who already disclose their asset allocations in industry publications may experience lower costs from the new regulations relative to schemes who do not already disclose this information.

Costs to Pension Schemes in Scope

36. For the amendment to the Scheme Investment regulations, all 'relevant schemes' will have to disclose and explain their asset allocations.

37. It is estimated that there are around 1,400 schemes [8]in scope of both measures, based on TPR data.

Familiarisation Cost

38. Only 'relevant schemes' directly affected will be expected to familiarise themselves with the new regulations and guidance from TPR.

39. There will be a one-off cost to all 'relevant schemes' trustees to familiarise themselves with the proposed regulations and guidance. A pension scheme in scope will experience this one-off cost in the first year only.

40. It is estimated that schemes in scope have approximately 3 trustees per scheme[9], with an estimated average hourly cost (including overheads) of around £64 per hour[10].

[8] Data from TPR, figure rounded to the nearest 100

[9] Weighted average of trustees by scheme size using 'The Pensions Regulator Trustee Landscape Quantitative Research' (Oct 2015) - (est based on fig 3.2.2) https://webarchive.nationalarchives.gov.uk/ukgwa/20170712122409/http:/www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf

41. It is estimated that there are around 1,400 relevant schemes[11] in scope of the SIP amendment and new asset allocation disclosure regulations and therefore facing a familiarisation cost.

42. It is estimated that it would take trustees of schemes in scope approximately 4 hours to read and understand the regulations and guidance. It is assumed the regulations are 9 pages. Guidance from TPR is 1 page and guidance from DWP is 7 pages.

SIP Illiquid Statement familiarisation cost

Around 1,400 schemes in scope x 4 hours spent familiarising x around 3 trustees per scheme x around £64 trustee wage per hour = £1,171,000

Amendment to the Statement of Investment Principles Regulations

43. The costs to 'relevant schemes' in scope resulting from this policy proposal are divided into:

- The costs of producing the explanatory statement on their policy towards investment in illiquid assets.
- The cost of updating the Statement of Investment principles or default Statement of Investment Principles with new information every three years .

Producing Explanatory Statement Cost

44. 'Relevant schemes' in scope will face the cost of producing an explanatory statement on their policy towards investment in illiquid assets. Pension schemes in scope will experience a one-off cost of producing the initial version of this statement in the first year only. It is expected that this statement will range in length from a minimum of one paragraph to a maximum of three paragraphs.

45. This cost will involve the additional time spent by 'relevant schemes' in scope on creating and agreeing their policy on illiquid investment and the setting of trustee beliefs on illiquids.

46. The estimate of aggregate costs to 'relevant schemes' in scope is £5,000 in year one only.

One-off explanatory statement cost

Around 1,400 schemes in scope x £5,000 to produce an explanatory statement = £6,850,000

47. There may be additional one-off costs for training on illiquids for trustees. However this is considered to be included in trustees' existing fiduciary duty and therefore is not included in costs to business.

48. There may be additional one-off costs for schemes to seek legal advice on their illiquid investment policy and consulting fees associated with advice on incorporating illiquid

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[10] See Paragraph 90 of using 'The Pensions Regulator Trustee Landscape Quantitative Research' (Oct 2015) for average hourly trustee wage figure assumptions

[11] Data from TPR, figure rounded to the nearest 100

assets. However, this is optional and not required by the regulations. Therefore, is not included within costs to business.

Updating Explanatory Statement Cost

49. There will be an ongoing cost to 'relevant schemes' in scope to update their explanatory statement at least every three years, in line with the Statement of Investment principles reporting requirements.

50. This cost will involve the additional time spent by 'relevant schemes' in scope discussing and updating their policy, production of an updated explanatory statement in their SIP and the time spent aligning format with other member communications.

51. The estimate of aggregate costs to 'relevant schemes in scope' is £1,000 every three years.

Ongoing explanatory statement cost

Around 1,400 schemes in scope x £1,000 to update an explanatory statement = £1,370,000

52. It is expected that this cost will decrease over time due to the consolidation of the number of schemes in the market. It is assumed that consolidation continues at the current pace of around 9% a year[12].

Asset Allocation Disclosure Regulations

53. The costs to 'relevant schemes' in scope resulting from this policy proposal are divided into:

- The costs of producing asset allocation information and breakdowns.
- The cost of updating the Chair's Statement with new asset allocation information and breakdowns annually.

Producing Asset Allocations Cost

54. 'Relevant schemes' in scope will face the cost of collating the necessary data, producing the requested asset allocation breakdowns and accompanying explanatory text, in line with the asset allocation disclosure requirements.

55. Pension schemes in scope will experience this cost in the first year only.

56. This cost will involve the additional time 'relevant schemes' in scope spend on engagement with asset managers, obtaining and validating the required information and data and preparing it in the correct format with accompanying text.

57. The estimate of the aggregate costs to 'relevant schemes' in scope is £5,000 in year one only.

58. There are 26 pension schemes in scope of this proposal disclosed information on their asset allocations in Corporate Adviser's Master Trusts & GPP's Defaults Report 2022. Therefore, it is assumed that these 26 schemes will only face a cost from preparing the

[12] DC trust: scheme return data 2021 to 2022 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-scheme-return-data-2021-2022

data in the correct format with accompanying text in year one. This represents less than 2 percent of total schemes in scope of the proposal.

59. The estimate of the aggregate costs to these 26 ‘relevant schemes’ in scope is £1,000 in year one only. This estimate is based on the estimate for ongoing costs discussed in the following section.

One-off asset allocations cost

(Around 1,350[13] schemes in scope x £5,000 to produce asset allocations) + (26 schemes in scope x £1,000) = £6,746,000

60. There may be additional one-off legal costs to ‘relevant schemes’ in scope as they may wish to seek advice from their legal teams in the first year of the policy to ensure they are fulfilling the regulatory requirements. However such advice is not required by the regulations. Therefore, it is not included within the costs to business.

Updating Asset Allocations Cost

61. There will be an ongoing cost to ‘relevant schemes’ in scope to update the asset allocation breakdowns and explanatory text every year, in line with the asset allocation disclosure requirements.

62. This cost will involve the time ‘relevant schemes’ in scope spend every year updating their data on asset allocations, validating it, updating their breakdowns and explanatory text in the Chair’s Statement which is published on scheme’s websites. This cost will be an equal undertaking for schemes who have previously published asset allocation information and schemes who have not.

63. The estimate of the aggregate cost to ‘relevant schemes’ in scope is £1,000 each year.

Ongoing asset allocations cost

Around 1,400 schemes in scope x £1,000 to update asset allocations = £1,370,000

64. It is expected that this cost will reduce over time due to the continued consolidation of schemes in the market.

Non-monetised impacts to business

Member communication costs

65. The additional information on illiquid asset investment and asset allocations in ‘relevant schemes’ in scope may result in an increase in member queries.

66. ‘Relevant schemes’ in scope may experience an increase in costs to respond to increased member queries as a result of the proposed regulations.

67. This cost is indirect and not quantifiable as it relies on the responses of members of the ‘relevant schemes’ in scope.

[13] Figure rounded to the nearest 50

Costs to Regulator

68. The Pensions Regulator (TPR) will be responsible for monitoring and enforcing compliance with the requirements.

Set-up costs

69. There will be a one-off cost to TPR to familiarise themselves with the proposed regulations, understand the impacts on their duties and implement required changes. It is understood that set-up costs will be negligible.

Monitoring and enforcement costs

70. Robust estimates in respect of compliance monitoring and enforcement by TPR, are not yet available.

Amendment to the Statement of Investment Principles Regulations

71. TPR expect to monitor compliance with the amendment to the Statement of Investment principles regulations via the scheme return or by checking the SIP document on the relevant scheme's website.

Asset Allocation Disclosure Regulations

72. TPR expect to monitor compliance with the asset allocation disclosure regulations via the Chair's Statement. Figures below are calculated based on monitoring and enforcement costs for Master Trusts in scope of the proposed regulations and a small number of non-Master Trust schemes in scope, whose Chair's Statements TPR may review.

73. TPR will experience one-off legal and policy costs in the first year only. This cost will involve the policy input associated with amendments to the compliance process and changes to TPR's guidance. The one-off cost also involves legal costs associated with initial roll-out of new review questions, training costs, updating guidance and external communications.

74. Table 1 sets out the estimated one-off costs provided by TPR for monitoring and enforcing compliance with asset allocation disclosure regulations.

Table 1: Estimated one-off costs to TPR related to asset allocation disclosure regulations

Total one-off costs	**£2,000**[14]
Of which:	
Legal	£1,250 - £1,500
Policy	£180

Source: The Pensions Regulator, unpublished data

75. TPR will experience ongoing regulatory and legal costs. This cost will involve additional time spent by regulatory transactions teams conducting reviews of Chair's Statements and the additional time spent by legal teams on these reviews.

[14] Figure rounded to the nearest 1,000

76. Table 2 sets out the estimated ongoing costs provided by TPR for monitoring and enforcing compliance with asset allocation disclosure regulations.

Table 2: Estimated ongoing costs to TPR related to asset allocation disclosure regulations

Total ongoing costs	**£8,000**[15]
Of which:	
Regulatory Transactions	£6,800
Legal	£700

Source: The Pensions Regulator, unpublished data

Impacts to Members and Employers

77. It is not possible to quantify the impacts to members and employers as a result of regulations as the potential costs and benefits described below are indirect and reliant on the actions of 'relevant schemes' in scope.

78. Members of 'relevant schemes' in scope could benefit from the introduction of these regulations, specifically those presently in pension schemes that do not have an established policy on investment in illiquid assets or publicly report their asset allocations.

79. A key benefit for members and employers of 'relevant schemes' is access to more information about how their or their employees' pension fund is invested. This could result in increased member and employer engagement with pensions.

80. An additional benefit for members of 'relevant schemes' is the potential for improved outcomes for their pension savings. If 'relevant schemes' in scope have not previously considered investment in illiquid assets before being required to develop an explanatory statement, they may now choose to invest in these types of assets which have the potential to give members higher returns. In addition, if pension schemes decide to commence investing in illiquid assets, there may be benefits to members in lower risk from greater diversification of their pension portfolios.

Wider economic and societal impacts

81. A wider, indirect benefit of the disclosure of illiquid policies could be the potential for an increased share of assets being invested in illiquid assets. This could mean that sectors of the economy such as smaller innovative firms, housing, infrastructure, and green infrastructure receive more investment than prior to the regulations, which could have wide ranging impacts across society.

Key assumptions/sensitivities/risks

<u>Risks</u>

Counterfactual

82. The costs are highly dependent on the counterfactual which will vary between schemes.

[15] Figure rounded to the nearest 1,000

83. ‘Relevant schemes’ in scope of disclosure of illiquid asset policy proposals who already have an established policy on investment in illiquid assets may experience lower costs from new regulations, relative to schemes without a current policy on illiquids.

84. ‘Relevant schemes’ in scope of asset allocation disclosure proposals who already report their asset allocations publicly may experience lower costs from new regulations, relative to schemes who do not currently report this information.

Monitoring and Enforcement

85. Compliance and enforcement plans are currently being considered by TPR. Therefore, TPR are unable to provide confirmed monitoring and enforcement plans for both measures and estimates they have provided may be subject to change.

<u>Sensitivity Analysis</u>

Familiarisation

86. It is assumed that it will take approximately 3 trustees per scheme in scope 4 hours to familiarise themselves with the regulations in the first year only. When allowing for sensitivity around the time assumption of 50 per cent (i.e., 2 or 6 hours) holding everything else constant, the familiarisation cost decreases to £585,000 and increases to £1,756,000.

<u>Pension schemes in scope – Amendment to the Statement of Investment Principles Regulations</u>

Producing explanatory statement

87. The upper limit cost per scheme of producing an explanatory statement on their policy towards investment in illiquid assets is assumed to be £7,500 based on an increase of 50 per cent. The lower limit is £1,000 based on the ranges provided by the pension industry’s consultation responses. When allowing for sensitivity around the cost assumption based on these upper and lower limits holding everything else constant, the one-off cost decreases to £1,370,000 and increases to £10,275,000.

Updating explanatory statement

88. The upper limit cost per scheme of updating an explanatory statement on their policy towards investment in illiquid assets is assumed to be £1,500 based on an increase of 50 per cent. The lower limit is £500 based on the ranges provided by the pension industry’s consultation responses. When allowing for sensitivity around the cost assumption based on these upper and lower limits holding everything else constant, the ongoing cost decreases to £685,000 and increases to £2,055,000.

89. It is expected that this cost will reduce over time due to continued consolidation of schemes in the market.

<u>Pension schemes in scope – Asset Allocation Disclosure Regulations</u>

Producing asset allocation breakdowns and information

90. The upper limit cost per scheme of producing an initial asset allocation breakdown in year one and accompanying text is assumed to be £7,500 for schemes not already disclosing

and £1,500 for schemes already disclosing based on an increase of 50 per cent. The lower limit is £1,000 for schemes not already disclosing and £500 for schemes already disclosing based on the ranges provided by the pension industry's consultation responses. When allowing for sensitivity around the cost assumption based on these upper and lower limits holding everything else constant, the one-off cost decreases to £1,357,000 and increases to £10,119,000.

Updating asset allocation breakdowns and information

91. The upper limit cost per scheme of updating asset allocation breakdown and accompanying text each year is assumed to be £1,500 based on an increase of 50 per cent. The lower limit is £500 based on the ranges provided by the pensions industry's consultation responses. When allowing for sensitivity around the cost assumption based on these upper and lower limits holding everything else constant, the ongoing cost decreases to £685,000 and increases to £2,055,000.

Assumptions

Assumptions for schemes' familiarisation

92. It is assumed only 'relevant schemes' in scope of the amendment to the SIP regulations and new asset allocation disclosure regulations will need to familiarise themselves. It is estimated that there are around 1,400 schemes[16] who will be affected.

93. An average cost of time for a Trustee is estimated to be around £64 per hour. This is based on the midpoint cost from initial assumptions of £29 and the Regulatory Impact Assessment in respect of Occupational Pension Schemes (Charges and Governance)[17] which assumed a wage of £100 an hour.

94. It is assumed that there is an average of approximately 3 trustees per scheme, for schemes in scope with 12 or more members. This is based on a weighted average using TPR data on 'Number of Trustees – by scheme size'[18].

95. For familiarisation costs it is estimated Trustees will take 4 hours to read and understand all the documents.

96. It is assumed regulations will be 9 pages and guidance will be 8 pages.

Amendment of Statement of Investment Principles Regulations

Assumptions for producing explanatory statement costs

97. It is assumed only 'relevant schemes' in scope of the regulations will need to produce an explanatory statement on their policy towards investment in illiquid assets.

98. It is assumed providers will experience these costs in the first year only.

[16] Data from The Pensions Regulator, figure rounded to the nearest 100
[17] https://www.legislation.gov.uk/nisr/2022/83/impacts
[18] Weighted average of trustees by scheme size using The Pensions Regulator Trustee Landscape Quantitative Research (October 2015) Est based on Figure 3.2.2
https://webarchive.nationalarchives.gov.uk/ukgwa/20170712122409/http:/www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf

Assumptions for updating explanatory statement costs

99. It is assumed only 'relevant schemes' in scope of the regulations will need to update their explanatory statement on their policy towards investment in illiquid assets in their Statement of Investment Principles.

100. It is assumed providers will experience these costs every three years, as this is the minimum frequency which schemes are required to update their SIP. Although, it is expected that the number of providers will decrease every year due to consolidation in the market.

Asset Allocation Disclosure Regulations

Assumptions for producing asset allocation costs

101. It is assumed only 'relevant schemes' within the scope of regulations will need to produce asset allocation breakdowns and accompanying text.

102. It is assumed that the 26 pension schemes in scope of this measure already have access to the required data and information in the appropriate format, given their inclusion in Corporate Advisor's Master Trusts & GPP's Defaults Report 2022[19].

103. It is assumed providers will experience this cost in the first year only.

Assumptions for updating asset allocation costs

104. It is assumed that only 'relevant schemes' within the scope of regulations will need to update their asset allocation breakdowns and accompanying text in their Chair's Statement.

105. It is assumed providers will experience this cost every year. Although, it is expected that the number of providers will decrease every year due to consolidation in the market.

Impact on Small Businesses

106. Information on pension schemes by number of employees is not available. Therefore, used scheme size (number of members) has been used as a proxy when considering impacts on small and micro businesses.

107. Only pension schemes with 12 or more members will be required to produce an explanatory statement on their policy towards investment in illiquid assets for their Statement of Investment Principles and disclose their asset allocations. Therefore, it is not expected that micro pension schemes would be impacted by this measure. However, for qualifying CMP schemes, who will state their policies on illiquid investments in their main SIP, the regulations only apply to schemes with 100 or more members exempting small CMP schemes from the impacts of this policy.

108. Medium sized schemes (with 50-499 members) are not exempted from this policy. On aggregate these schemes still hold material assets (schemes with 100-999 members held £1.9bn of assets in 2022[20]) and excluding them would remove these assets from scope.

[19] Corporate Adviser's Master Trust & GPP's Defaults Report 2022 https://corporate-adviser.com/research/

[20] DC trust: scheme return data 2021 to 2022 | TPR https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-scheme-return-data-2021-2022

109. Many micro businesses use large pension schemes to fulfil their automatic enrolment duties. Therefore, their employees may benefit from the proposed regulations in the manner discussed in the 'Impact on Members' section.

Monitoring and Evaluation

110. TPR will be responsible for monitoring and enforcing compliance with the requirements.

111. TPR will work with industry stakeholders and others to understand and review the post-implementation impact of these policies and ensure they continue to fulfil the policy intent with minimum burden to trustees.

112. Although the regulations are planned to come into effect in 2023, there will be a transition period between this date and when schemes will be required to action the asset allocation disclosure requirements in their chair's statement and the illiquid investment policy disclosure requirements in their default statement of investment principles.

Summary of Impacts[21]

Summary of Impacts per scheme

Type of Cost	**Year One**	**Year Two**	**Year Three**	**Year Four Onwards**	**Frequency**	**Assumptions and Rationale**
One-off costs – Familiarisation	£900[22]	N/A	N/A	N/A	Once per scheme.	All trustees of a scheme in scope are required to familiarise and understand the requirements.
One-off costs – Amendment to SIP regulations production costs	£5,000	N/A	N/A	N/A	Once per scheme.	Costs estimates from the pensions industry.
Ongoing costs – Amendment to SIP regulations updates	£0	£0	£0	£1,000	Every three years, or without delay following any significant change in investment policy.	Costs estimates from the pensions industry.
One-off costs – Asset Allocation disclosure regulations production	**Schemes already reporting:** £1,000 **Schemes not already reporting:** £5,000	N/A	N/A	N/A	Once per scheme.	Costs estimates from the pensions industry.
Ongoing costs – Asset Allocation disclosure regulations updates	£0	£1,000	£1,000	£1,000	Yearly within the Chair's Statement	Costs from the pensions industry. .
Total Costs	Schemes: £6,000-£10,000 in Year One; £1,000 in Years Two, Three, Five, Six, Eight and Nine and £2,000 in Years Four, Seven and Ten.					

Summary of Impacts – totals

Type of Cost	**Year One**	**Year Two**	**Year Three**	**Year Four Onwards**	**Frequency**	**Assumptions and Rationale**

[21] All costs are rounded to the nearest 1,000
[22] Cost rounded to the nearest 100.

One-off costs –Familiarisation	£1,171,000	N/A	N/A	N/A	Once per scheme	Assumed all trustees of a scheme in scope are required to familiarise and understand the requirements.
One-off costs – Amendment to SIP regulations production costs	£6,850,000	N/A	N/A	N/A	Once per scheme	Costs estimates from the pensions industry.
One-off costs – Amendment to SIP regulations TPR cost	Not currently available					
Ongoing costs – Amendment to SIP regulations updates	£0	£0	£0	£1,0200,000[23]	Every three years, or without delay following any significant change in investment policy	Costs estimates from the pensions industry.
Ongoing costs – Amendment to SIP regulations TPR cost	Not currently available					
One-off costs – Asset Allocation disclosure regulations production	£6,746,000	N/A	N/A	N/A	Once per scheme	Costs estimates from the pensions industry.
One-off costs – Asset Allocation disclosure regulations TPR cost	£2,000	N/A	N/A	N/A	Once	Costs estimates from TPR.
Ongoing costs – Asset Allocation disclosure regulations updates	£0	£1,242,000	£1,125,000	£1,020,000	Yearly within the Chair's Statement	Costs estimates from the pensions industry. It is expected that this cost will reduce over time due to continued consolidation of schemes in the market. assumed in line with 2012-2022 trend of around 9% a year[24]
Ongoing costs – Asset Allocation disclosure regulations TPR cost	£8,000	£8,000	£8,000	£8,000	Yearly	Costs estimates from TPR.
Total Costs	Schemes: £12,596,000 in Year One; £1,242,000 in Year Two, 1,125,000 in Year Three, £2,040,000 in Year Four, £924,000 in Year Five, £838,000 in Year Six, £1,518,000 in Year Seven, £688,000 in Year Eight, £624,000 in Year Nine and £1,130,000 in Year Ten. TPR: £10,000 in Year One and £8,000 in Years Two to Ten.					

[23] Cost will be incurred every 3 years (Year 4, 7 and 10)
[24] DC trust: scheme return data 2021 to 2022 | TPR https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-scheme-return-data-2021-2022

Other Impacts

Equality

113. In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on these legislative proposals and has concluded that they would not have significant implications for equality of opportunity and considers that an Equality Impact Assessment is not necessary.

Environmental

114. There are no implications.

Rural proofing

115. There are no implications.

Health

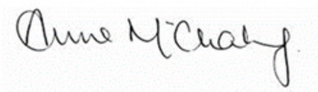
116. There are no implications.

Human rights

117. The Department considers that the regulations are compliant with the Human Rights Act 1998.

Competition

118. There are no implications.

Approved by:	 Anne McCleary Director of Social Security Policy, Legislation and Decision Making Services	**Date:**	1st March 2023

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