



Department
for Work &
Pensions

Pension Schemes Act 2021

Enactment Impact Assessment

Summary of Impacts

February 2021

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Introduction

1. The Pensions Schemes Act 2020 (“the Act”) ensures that the Occupational Pension Schemes system is fit for the future by:
 - Further strengthening security and increasing transparency so that savers can be confident that their pensions are protected and that the Pensions Regulator (TPR) will take action if pensions are put at risk;
 - Providing more options for employers to ensure that scheme members can adequately save for retirement and to better protect their income in later life;
 - Improving information and guidance for savers so that they can prepare for retirement with confidence.
2. Further detail on particular provisions can be found below and in the explanatory notes for the Act.
3. The Government recognises a responsibility to consider the impact, in terms of costs and benefits, of new regulatory proposals.
4. This note summarises the Impact Assessments for the provisions contained in the Act:
 - i. Impact assessments for The Pensions Regulator (TPR) powers measures covering:
 - an impact assessment for the information gathering powers measures including fixed and escalating penalties is at **Annex A**.
 - an impact assessment for contribution notice measure is at **Annex B**
 - a summary of impacts for sanctions and fines measure is at **Annex C**
 - an impact assessment for declarations of intent measure is at **Annex D**
 - ii. Impact assessments for Defined Benefit (DB) scheme funding measures covering:
 - an impact assessment for the trustee board’s statement and the appointment of a Chair measure is at **Annex E**
 - an impact assessment for the long term destination measure is at **Annex F**
 - iii. An Impact assessment for Collective Money Purchase (CMP) measures (also referred to as Collective Defined Contribution (CDC)) is at **Annex G**.
 - iv. Impact assessment for the pensions dashboard measure is at **Annex H**.
 - v. Impact assessments for member protection measures covering:
 - an impact assessment for transfers of rights measures is at **Annex I**.
 - an impact assessment for the administration charge measure is at **Annex J**.
 - vi. An impact assessment for the proposed measures related to ‘Climate Change Risk’ is at **Annex K**.

Background

5. Recent pensions reforms have meant that more people are now making provision for their retirement through saving into a workplace pension, whilst individuals also have more flexibility over their pension at retirement. In just six years 10 million people are newly saving, or saving more, into a pension as a result of automatic enrolment and, through the introduction of Pensions Freedoms, savers have more freedom and choice than ever.
6. Although most private sector Defined Benefit pension schemes are closed to new members and/or new accruals, the sector remains an integral part of the UK pensions system with around 10.4 million members relying on them. In addition, with roughly 14,000 employers currently supporting Defined Benefit pension schemes and around £1.5 trillion in assets held by these schemes, the Defined Benefit sector is of crucial importance to the UK economy.
7. The Pensions Schemes Act 2020 (“the Act”) ensures that the Occupational Pension Schemes system is fit for the future by:
 - Further strengthening security and increasing transparency so that savers can be confident that their pensions are protected and that the Pensions Regulator will take action if pensions are put at risk;
 - Providing more options for employers to ensure that scheme members can adequately save for retirement and to better protect their income in later life;
 - Improving information and guidance for savers so that they can prepare for retirement with confidence.
8. To support the scrutiny of the Act, this document provides a short summary of each of these measures and then sets out what assessment has been made of the estimated impact of each measure.

The Pensions Regulator (TPR) powers

9. These measures will tighten the rules against abuse of DB pension schemes and introduce new powers to penalise reckless behaviour. This includes:
 - (i) strengthening the Corporate Transaction Oversight framework, Contribution Notice, and Information Gathering powers to ensure that TPR is able to effectively assess risk to Defined Benefit pension schemes, and
 - (ii) introducing new civil penalties to deal with wrongdoing and new criminal offences to punish wilful and reckless behaviour, and non-compliance with Contribution Notices.

Defined Benefit (DB) scheme funding measures

10. Measures will improve the DB Scheme funding system and TPR’s scheme funding powers through clearer funding standards and the introduction of a

Statement from the trustee board on their funding strategy. Broadly the measures will require trustees and managers to:

- (i) determine a funding and investment strategy for the scheme (to be agreed with the sponsor employer) which underpins the Statutory Funding Objective, to ensure pensions and other benefits can be paid over the long term;
- (ii) to set out in a statement of strategy to be submitted to TPR with other key documents, information about their funding and investment strategy including trustees' assessment of whether they are on track, how they intend to mitigate key risks and their reflection on past decisions; and
- (iii) appoint a Chair who signs the statement on behalf of the trustee board.

Collective Money Purchase (CMP)

11. The measures in this part of the Act provide a legislative framework to create a new sub-set of money purchase benefits which will allow pooled pension arrangements (collective benefit pension schemes), and to define the nature and quality features of schemes which can provide them. This will enable collective defined contribution schemes, such as that proposed by Royal Mail and the Communication Workers Union, to operate. These schemes have the potential to provide greater efficiency in pension provision for members, with lower financial risk to employers. The new legislative framework will ensure that appropriate measures for oversight and governance of these type of schemes are in place.

Pension Protection Fund (PPF) measure

12. The PPF provides an essential safety net to members of DB schemes. It makes compensation payments to members of schemes in which the sponsoring employer has become insolvent and the scheme has insufficient assets to meet its pension liabilities.
13. The Fund has had a recent legal case which relates to the level of compensation that it is required to pay to individuals with fixed pensions and pensions attributable to their pensionable service. The measure in this Act is necessary to make changes to rectify the unintended outcomes of the judgment in Mr Beaton's case¹, to enable the Fund to continue to administer the compensation regime as the Government intended.

¹ <https://high-court-justice.vlex.co.uk/vid/ch-2016-000303-69580493>

The Pensions Dashboard

14. Pension dashboards are a 2016 Government commitment, announced at the Budget, and are digital interfaces that will allow individuals to see their pension savings in one place. The measures in the Act will enable the pensions industry to create pensions dashboards, including allowing the Money and Pensions Service to provide their own dashboard.
15. The measures provide powers to compel pension schemes to provide information to individuals via qualifying dashboard services and impose sanctions for non-compliance with those requirements.

Member Protection

16. The measures in this part of the Act build on the commitment to ‘enable more people to save, with greater confidence, while they are working, so they can enjoy greater security and independence when they retire’. The measures:
 - (i) prevent people from being enticed into transferring their pension savings into fraudulent schemes (scams); and
 - (ii) amend the definition of “administration charge” to ensure that it covers all appropriate charges.

Climate Change Risk

17. The measures in this part of the Act explicitly introduce climate change considerations into primary legislation on pensions. Clause 124 will allow the Government to make regulations for occupational pension schemes ‘with a view to securing that there is effective governance of the scheme with respect to the effects of climate change’. This includes powers to require trustees and managers to:
 - (i) review the exposure of the scheme to climate change risks;
 - (ii) determine, review and revise strategies and targets for managing that exposure;
 - (iii) take into account the Paris Agreement goal of holding the increase in the average global temperature to well below 2⁰C above pre-industrial levels; and
 - (iv) publish information relating to the effects of climate change on the scheme.

Summary of Impacts

18. This section summarises the impact of each measure on key groups.
19. As a whole, the impact of the Act measures is a moderate net cost to pension schemes and employers, in order to ensure the millions of private pension scheme members across DB and DC schemes benefit from increased security of their pension benefits, reduced risks of scams, and better information around their pension saving.
20. A summary of the regulatory impact to businesses is set out below. These are calculated using the Regulatory Policy Committee's measure of Equivalent Annual Net Direct Cost to Business (EANDCB).

Table 1 Business impacts of the Act measures

Measure	EANDCB (£m p.a. 2016/17 prices)	Status
TPR powers – information gathering powers	£0.9m	NQRP (non-qualifying regulatory provision)
TPR powers – contribution notice powers	£0.2m	NQRP
TPR powers – sanctions and fines	£0.0m	NQRP
TPR – new criminal offences and civil sanctions	£0.0m	NQRP
TPR declarations of intent	Not quantified	To be determined at secondary legislation stage
DB scheme funding – trustee statement and appointment of Chair	£17.3m	RPC verified
DB scheme funding – long term funding and investment strategy	£0.2m	NQRP
CMP	Not quantified	To be determined at secondary legislation stage
PPF compensation regime – Beaton	£0.0m	NQRP
The pensions dashboard	Not quantified	RPC verified
Member protection - transfers	£0.8m	NQRP

Member protection – administration charge	£0.0m	NQRP
Climate Change Risk – Governance and Disclosure	£4.4m	NQRP

21. The following tables summarise the impact of each measure on key affected groups.

Measure: The Pensions Regulator (TPR) powers– information gathering powers (see Annex A for further details)	
Summary of Measures	<p>This measure seeks to extend and enhance the Pensions Regulator’s (TPR) Information Gathering Powers. The proposed changes are to harmonise and extend TPR’s powers so that:</p> <ul style="list-style-type: none"> i. It can interview a person it believes has relevant information in connection with any of its functions- without the need for written request for information to have already been issued under section 72 of the Pensions Act 2004. ii. It can enter a wider range of premises where relevant records or information are held, for the purposes of inspection. iii. It can issue civil penalties for non-compliance with section 72 notices, interview or inspections where more appropriate than a criminal prosecution. <p>TPR’s current information gathering powers are in primary legislation. The proposed changes here can only be made through amending primary legislation.</p>
Sections & Schedules	Part 3
Impact on Members	<p>There will be no costs to members as there is no need for them to familiarise with the changes or implement them.</p> <p>Where TPR can obtain relevant information in a timelier and accurate manner they are likely to be able to take more effective and efficient action. This is expected to help increase the security of member benefits.</p>
Impact on Businesses (employers and pensions industry).	<p>There are existing information gathering powers in the baseline. Businesses will incur costs at the familiarisation stage of approximately £8.9 million. Both trustees and employers will be required to familiarise with the changes.</p> <p>When compared against the baseline we assess the additional on-going cost to be either zero or negligible. In gross terms, participating in and preparing for an interview/inspection results in a cost. However, this is just a</p>

	different form of gathering the same information that schemes/businesses are obliged to provide in the baseline.
Impact on Government and public sector	We anticipate costs and savings to TPR resulting from the changes with the net effect to TPR broadly cost neutral.
Wider impacts	Any improvement to the security of DB scheme members' pension savings may also improve public attitudes towards the pensions industry, which may in turn act as an additional incentive to save.

Measure: The Pensions Regulator (TPR) powers– Contribution Notice powers (see Annex B for further details)	
Summary of Measures	<p>This measure seeks to amend The Pensions Regulator's Contribution Notice (CN).</p> <ul style="list-style-type: none"> Contribution Notices recover any losses caused to a Defined Benefit pension scheme as a result of avoidance behaviours. <p>Four amendments to the CN regime are being pursued to clarify and strengthen the legislation. The aim is to clarify and strengthen the existing legislation to ensure that TPR's CN powers are up to date and fit for the future.</p> <p>TPR's current CN powers are in primary legislation. Any amendments must be made through primary legislation.</p>
Sections & Schedules	Part 3
Impact on Members	<p>There are no costs incurred by members as a result of these changes as the CN regime is not designed to cause action for scheme members.</p> <p>The clarification and strengthening of the existing CN regime may result in a benefit of increased security of pension benefits and reassurance that the pension promises will be met.</p>
Impact on Businesses (employers and pensions industry).	<p>Both employers and schemes will be required to familiarise with the changes to the CN regime. The estimated cost of familiarisation is £1.7 million.</p> <p>Ongoing costs could have an impact on business if they result in</p> <ul style="list-style-type: none"> A change in the volume of CNs A change in the value of a CN <p>The CN regime is a fault based mechanism, where the target has decided to act or failed to act knowing that it could have material detriment to the pension scheme. A CN is only issued in this case of wrongdoing and therefore any change in the value or volume of a CN would be treated like a fine and not a cost to business for EANDCB purposes.</p>

Impact on Government and public sector	<p><u>TPR</u></p> <p>We anticipate both costs and savings to TPR resulting from the changes to the CN. We broadly assess the impact on TPR to be neutral.</p> <p><u>PPF</u></p> <p>We anticipate that there will be limited impact to the PPF as a result of these changes. However, it is expected that any impact will be marginal, given the small number of cases and the fact that an insolvency event would have to occur for the PPF to be involved in the scheme.</p>
Wider impacts	<p>The measure is designed to contribute to improving the security of DB scheme members' pension savings. Any improved security may also improve public attitudes towards the pensions industry, which may in turn act as an additional incentive to save.</p>

Measure: The Pensions Regulator (TPR) powers– sanctions and fines (see Annex C for further details)	
Summary of Measures	<p>This measure seeks to deter occupational pension scheme sponsoring employers or scheme trustees from engaging in wrongdoing in relation to their pension scheme. This will be done by:</p> <ul style="list-style-type: none"> • Extending the list of duties and requirements which attract a civil sanction, • Introduce a new £1 million civil penalty to appropriately address more serious breaches • Introduce new criminal offences for: <ul style="list-style-type: none"> ○ Wilful or reckless behaviour in relation to a pension scheme ○ Failure to comply with a Contribution Notice.
Sections & Schedules	Part 3
Impact on Members	<p>There will be no costs for scheme members as they will not need to do anything. The enhanced sanctions regime is expected, in some cases, to deter 'wrongdoing', which would otherwise put the scheme and its members' pensions at risk - hence a potential benefit to members.</p>
Impact on Businesses (employers and pensions industry).	<p>There are no changes in the requirements but a different sanctioning power will apply where the requirements are not met as a result of 'wrongdoing'. In other cases, the existing requirements have been amended or new offences are being introduced, in those cases they are assessed either in impact assessments or within this summary enactment impact assessment. The subject of this section is just sanction and fines.</p> <p>Schemes have to be familiar with what defines wrongdoing in the baseline. The ongoing cost to business is assessed to be</p>

	<p>nil. This is primarily on the basis that sanctions or fines, which result from wrongdoing, are not to be treated as a cost. Equally, not issuing a fine, where issuing one is reasonable, is not treated as a benefit to business due to the same argument.</p> <p>There may be some costs to business arising where a sanction or fine is applied by TPR but later successfully appealed. The challenge process carries a cost and where a sanction is applied incorrectly the associated adverse monetary implications on business are to be treated as a cost. The legal system allows for compensation where punishment has been applied incorrectly. We do not claim that that necessarily reduces any damages to zero; but we anticipate any net costs associated with sanctions being (ultimately) incorrectly applied as negligible.</p>
Impact on Government and public sector	<p><u>TPR</u></p> <p>TPR is anticipated to incur both costs and gross benefits. Civil sanctions will be dealt with directly by TPR; and in relation to criminal sanctions, TPR will form the prosecution. Net impact will depend on several factors, including how the deterrence effect plays out, which is not possible to quantify with any certainty.</p> <p><u>DWP</u></p> <p>Any downstream costs as a result of the new criminal offence and any appeals to the upper tribunals will be paid for by the Department for Work and Pensions (DWP).</p> <p>There may be costs incurred to HM Prison service because of the new criminal sanction and custodial sentence for 'Wilful or reckless behaviour in relation to a pension scheme'.</p> <p>It is estimated that the cost incurred to HM Prison Service is £26,274 in the first year and then £52,548 per annum thereafter.</p>
Wider impacts	<p>These measures are designed to deter wrongdoing in relation to pension schemes. This may lead to improved security which may also improve public attitudes towards the pensions industry, and in turn act as an additional incentive to save.</p>

Measure: The Pensions Regulator (TPR) – New criminal offences and civil sanctions	
Summary of Measures	<p>This measure seeks to deter occupational pension scheme sponsoring employers or scheme trustees from engaging in wrongdoing in relation to their pension scheme. This will be done by introducing new requirements. These include:</p> <ul style="list-style-type: none"> • requirements pertaining to wilful and reckless behaviours in relation to a pension scheme; • knowingly/recklessly providing false information to trustees; and,

	<ul style="list-style-type: none"> knowingly/recklessly providing false information to TPR.
Sections & Schedules	Part 3
Impact on Members	There will be no costs incurred for scheme members as they will not need to do anything. The changes proposed here are intended to deter wrongdoing in relation to pension schemes and therefore designed to help secure members' pensions.
Impact on Businesses (employers and pensions industry).	<p><u>Wilful/reckless behaviours in relation to a pension scheme</u></p> <p>Although these will be new requirements for pension schemes and their employers, there is already a requirement in the baseline to 'not compromise the scheme'. These offences are also based on the contribution notice (CN) framework, and as such are linked to existing requirements. As such, we argue that there are no familiarisation costs incurred to businesses as a result of these changes.</p> <p><u>Knowingly/recklessly providing false information to trustees.</u></p> <p>This is similar to the current requirements for not providing false information to TPR. It is expected that employers and schemes should be complying with this in the baseline and so there aren't expected to be many changes from this proposed change. Therefore, we assume familiarisation and ongoing costs to be negligible.</p> <p><u>Knowingly/recklessly providing false information to TPR.</u></p> <p>This is already an existing criminal offence. The changes here simply allow a civil penalty to be applied to this offence. Therefore, there are no familiarisation or ongoing costs incurred as a result.</p>
Impact on Government and public sector	TPR is anticipated to incur both costs and benefits as a result of the proposed changes.
Wider impacts	These measures are designed to deter wrongdoing in relation to pension schemes. This may lead to improved security which may also improve public attitudes towards the pensions industry, and in turn act as an additional incentive to save.

Measure: The Pensions Regulator (TPR) Declarations of Intent (see Annex D for further details)

Summary of Measures	<p>The measure seeks to reduce risks to DB pension schemes and enable trustees and TPR to take action where necessary to protect the pension scheme.</p> <p>It will do so by:</p> <ul style="list-style-type: none"> Introducing a requirement for corporate planners to make a Declaration of Intent which would be issued TPR and shared with trustees, setting out information about the transactions and how any detriment to the pension scheme is to be mitigated.
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	The measure will introduce the requirement for a Declaration of Intent with primary legislation. The content of the Declaration of Intent is to be set in secondary legislation.
Sections & Schedules	Part 3
Impact on Members	There will be no costs to members as they are not required to familiarise or take any action. The measure is designed and anticipated to contribute to enhancing the security of members' pensions.
Impact on Businesses (employers and pensions industry).	<p>All 14,000 sponsoring employers will be required to familiarise with the changes. This is estimated to cost businesses around £0.71 million.</p> <p>There will be ongoing costs to businesses. At this stage we are not aware of the content and so provide some indicative figures and discuss the potential impacts. We broadly think there will be three types of costs associated with the Declaration of Intent:</p> <ol style="list-style-type: none"> 1. Cost of preparing the Declaration of Intent including assessing the impacts of the corporate transaction with trustees. In a scenario where there are 285 declarations of intent per annum, illustrative figures indicate that this annual cost will be just under £1 million. 2. Cost of changing the corporate transaction: Where detrimental impacts on the scheme are identified the business may need to alter the transaction in order to mitigate the impacts. This would depend on the specifics of the event which we are not aware of at this stage. In some cases, this may potentially result in some of the business gains foregone. 3. Costs of delaying the corporate transaction: Where the process of assessing and producing a Declaration of Intent delays the benefits from the transaction.
Impact on Government and public sector	<p><u>TPR</u></p> <p>TPR will have increased operational costs from having to review and respond to Declarations of Intent. These have not been quantified at this stage. TPR may also benefit from efficiency savings as a result of being told earlier when businesses are planning on completing certain corporate transactions.</p> <p><u>PPF</u></p> <p>Introduction of the Declaration of Intent is intended to help protect DB pension scheme members' benefits and in turn reduce the likelihood that a scheme will enter the PPF, also reducing costs to the PPF (and potentially benefitting businesses indirectly through a reduction in the pension protection levy).</p>
Wider impacts	No significant impacts identified. The measure is designed and anticipated to contribute to improving the security of DB scheme members' pension savings. This improved security may also improve public attitudes towards the pensions

	industry, which may in turn act as an additional incentive to save.
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Measure: Defined Benefit (DB) scheme funding –statement of strategy and appointment of Chair (see Annex E for further details)	
Summary of Measures	<p>This measure is intended to support decision-making by the trustee board and their engagement with the sponsoring employer, as well as TPR's scheme funding enforcement.</p> <p>It will do so by introducing:</p> <ul style="list-style-type: none"> - a new requirement for a Statement from the trustee board setting out their funding and investment strategy, and approach to risk management - a requirement for all DB trustee boards to appoint a Chair to the Board. <p>The content and detail of the statement will be set in secondary legislation.</p>
Sections & Schedules	Part 5
Impact on Members	<p>These measures will not result in any costs to scheme members as they will not have to familiarise or implement any of the requirements. The requirement to have a Chair and for the trustee board to regularly produce and report their funding strategy to TPR is designed to improve scheme governance and decision making, which in turn is intended to ensure scheme running is both more efficient and more secure for members.</p>
Impact on Businesses (employers and pensions industry).	<p><i>Familiarisation/Implementation costs</i></p> <p>We expect that all 5,524 schemes will have to familiarise with the new requirements for the statement- even if they already have a Chair in place. We estimate that this familiarisation is approximately £1m.</p> <p>As schemes will be required to submit a Statement with an actuarial valuation even where there is scheme funding (SFO measure) surplus - we assume schemes will incur negligible familiarisation costs as they are already aware of how to submit the valuation if they were to be in deficit.</p> <p><i>Ongoing Costs</i></p> <p>For the schemes that don't already have a Chair, there will be an ongoing additional cost because of the higher pay associated with being a Chair rather than a trustee. We estimated a scope of around 850 schemes that did not already have a Chair of the trustee board, this represents just over 15% of DB schemes. We estimate the ongoing costs incurred to businesses to be £19.5 million per year. The cost incurred to each scheme is assumed to vary depending on the size of scheme.</p> <p>Costs of preparing and reviewing the Statement will directly depend on the content, to be set out in secondary legislation.</p>

	<p>At this stage we do not quantify the costs of producing the Statement.</p> <p>There will be some associated costs with submitting the valuation for schemes in surplus. It is estimated that it will cost around £9,000 in total for businesses to submit a valuation where they are in surplus per annum.</p> <p><i>Benefits</i></p> <p>This measure is expected to support trustees and their sponsoring employers to make the best possible long-term decisions to meet the pension liabilities of all members of the pension scheme over time. It is not possible to quantify the benefits as many other factors drive improvements in governance and it is difficult to estimate the baseline and the counterfactual. Quantifying the benefit would be disproportionate and therefore is not included in the EANDCB estimate.</p>
Impact on Government and public sector	We anticipate there to be both costs and benefits associated with the proposed changes to TPR. We will review these impacts at the secondary legislation stage.
Wider impacts	The measure is designed and anticipated to contribute to improving the security of DB scheme members' pension savings. This improved security may also improve public attitudes towards the pensions industry, which may in turn act as an additional incentive to save.

Measure: Defined Benefit (DB) scheme funding – long term funding and investment strategy (see Annex F for further details)	
Summary of Measures	<p>This measure aims to support clearer funding standards for Defined Benefit occupational pension schemes. This will ensure schemes have a funding and investment strategy to reach their long term destination in the relevant timeframe and be more prepared to manage risks to reaching this destination as they occur.</p> <p>The primary legislation includes a provision to require trustee boards to:</p> <ul style="list-style-type: none"> - set a long term funding and investment strategy for the scheme, - to incorporate this into the Statutory Funding Objective. <p>The measure also includes provisions to ensure TPR can enforce the new requirement to set a long term destination.</p>
Sections & Schedules	Part 5
Impact on Members	There will be no costs to members as they are not required to familiarise or take any action. The measure is designed to contribute to enhancing the security of members' pensions.

Impact on Businesses (employers and pensions industry).	<p>Impacts will be determined by the factors to be set in secondary legislation, and the long-term funding and investment strategy that is set by the trustee board.</p> <p>We anticipate there to be minor familiarisation and implementation gross cost to business, partially offset by savings associated with improved clarity of the requirements. There are also expected savings as a result of an improved funding position. The new requirement for trustees to set a long-term strategy is not expected to have a significant impact on schemes and their sponsors who already have an existing obligation to meet their pension liabilities/promise.</p>
Impact on Government and public sector	We anticipate there to be both costs and benefits associated with the proposed changes to TPR. We will review these impacts at the secondary legislation stage.
Wider impacts	The measure is designed and anticipated to contribute to improving the security of DB scheme members' pension savings. This improved security may also improve public attitudes towards the pensions industry, which may in turn act as an additional incentive to save.

Measure: Collective Money Purchase (CMP) (see Annex G for further details)	
Summary of Measures	<p>This measure would introduce a framework to create a provision for the pensions industry to CMPs. This legislation will:</p> <ul style="list-style-type: none"> - Amend parts of the Pension Schemes Act 1993 to create a new sub-set of money purchase benefits which will allow pooled pension arrangements (collective benefit pension schemes), and to define the nature and quality features of schemes which can provide them. - Provide powers to flesh out the technical aspects of the new regime, for example how schemes with pooled benefits should undertake valuations of their assets and liabilities. - Provide powers to apply (with necessary modifications) existing pensions legislation to enable the Pensions Regulator to authorise and oversee pooled schemes.
Sections & Schedules	Part 1 and 2
Impact on Members	<p><i>Costs</i></p> <p>Where the counterfactual is DB, all members are expected to face more uncertainty in their pension income under CMP. Where the counterfactual is DC, on an individual basis, some members may face lower pension income under CMP for the following reasons:</p> <ul style="list-style-type: none"> - CMPs will smooth out the benefits gained in 'strong' economic scenarios.

	<ul style="list-style-type: none"> - Opportunity forgone for those that would rather have an individual DC scheme. <p><i>Benefits</i></p> <p>Where the counterfactual is DC, a CMP can provide a more stable outcome for members at a lower cost than individual DC. There are a number of reasons for this:</p> <ul style="list-style-type: none"> - Ability for CMPs to smooth out the losses incurred in ‘bad’ economic scenarios. - Ability for members to share their individual longevity risk with other members, so that they avoid the risk of either outliving their savings or being unnecessarily frugal with their savings. - Ability to invest a high proportion in growth assets (e.g. equities) throughout the scheme’s whole lifetime, whereas typical DC schemes tend to move into safer, lower-returning assets as the member approaches retirement. - Converting DC pots into an income stream for members without the high costs of guaranteeing income through an annuity. <p>Some members may prefer “hands off” access to a professionally managed investment strategy, which CMP type schemes can offer.</p>
<p>Impact on Businesses (employers and pensions industry).</p>	<p>Due to the significant uncertainty over the full impacts of the proposal, DWP has not quantified an Equivalent Annual Net Direct Cost to Business (EANDCB). Specifically:</p> <ul style="list-style-type: none"> - The costs and benefits depend on the counterfactual (whether a firm’s employees would in future be enrolled in a DB scheme, a DC scheme or a hybrid DB/DC scheme) which is not possible to predict. Particularly in the case for DB employers, there are uncertainties as to whether they would switch to DC in the absence of CMP legislation. - Consultation responses illustrated interest in CMP amongst the wider pensions industry, but did not identify plans to deliver CMP. Consequently, the potential take-up of CMPs from employers is currently unknown with only the Royal Mail Group having clear plans to deliver CMP. <p>Given the voluntary nature of this legislative change, we only expect businesses to incur gross costs to create a CMP scheme if it were beneficial to do so compared to their next best alternative. As such, we assume this proposal to be zero net cost. However, we are not able to accurately quantify the scale of benefits, and so cannot treat this measure as a non-qualifying regulatory provision (NQRP) on the grounds of the equivalent annual net direct impact on business being less than £5m.</p> <p><i>Costs</i></p>

	<p>Where the counterfactual is DC, we do not envisage fundamental differences in direct costs to sponsoring businesses. However, we acknowledge that there may be some differences in scheme running costs when compared against DC. For example, in CMP, pension levels will need to be revalued more regularly and so incur actuarial costs.</p> <p><i>Benefits</i></p> <p>Where the counterfactual is DC, it is possible that moving to a CMP would result in benefits to employers in terms of improved employee retention, and specifically in the case of Royal Mail, improved industrial relations.</p> <p>Where the counterfactual is DB, savings to sponsoring businesses may be substantial. However, where DB commitments already exist they cannot be broken and CMP will not alter this at all; so any potential savings would only relate to new / future pensions accruals – for which businesses already have an alternative (in the form of DC) and strong financial incentives to pursue it.</p>
Impact on Government and public sector	We anticipate there to be an impact on TPR in regulating CMP schemes. We will review these impacts at the secondary legislation stage.
Wider impacts	CMP schemes are expected to be able to invest (over their lifetimes) a greater proportion in acyclical, long-term returning assets than DC. These might include, for example, investing in infrastructure projects. However, investment choices and their impacts on wider economy are always complex and hard to assess / predict.

Measure: The Pension Protection Fund (PPF) compensation regime - Beaton	
Summary of Measures	<p>This measure seeks to ensure that:</p> <ul style="list-style-type: none"> - PPF recipients do not see their PPF compensation payments reduced or in extreme cases stop all together. - the PPF has a statutory basis for paying survivors benefits and inflationary increases to pension payments, and pensions that have not to come into payment to maintain their value. <p>The necessary changes have retrospective effect and can only be made through primary legislation.</p>
Sections & Schedules	Part 5
Impact on Members	This measure simply gives a statutory basis to the current PPF operational practices. Therefore, we do not expect any changes to the existing counterfactual regarding members.
Impact on Businesses (employers and pensions industry).	This measure simply gives a statutory basis to the current PPF operational practices. Therefore, we do not expect any changes to the existing counterfactual regarding businesses.

Impact on Government and public sector	Though this measure relates to the PPF, it simply gives a statutory basis to the current PPF operational practices. Therefore, we do not expect any changes to the existing counterfactual.
Wider impacts	No significant impacts identified.

Measure: The pensions dashboard (see Annex H for further details)	
Summary of Measures	<p>This measure seeks to enable citizens to securely access their pensions information online, to support better planning and preparation for retirement. It will do this by:</p> <ul style="list-style-type: none"> - introducing legislation to compel pension providers to make certain data available to members via dashboards. <p>Primary legislation will introduce necessary powers to set out the conditions of a qualifying dashboard service. Subsequent secondary legislation will specify the design and implementation decisions, and establish a regulatory framework to implement appropriate and robust controls to protect users.</p>
Sections & Schedules	Part 4
Impact on Members	<p>The dashboard provides an individual's pension information in one place, saving consumers time and potentially reducing costs of paid financial advice. Some consumers may benefit from recovering lost pension pots.</p> <p>We expect that increased engagement, via dashboards, could lead to better retirement planning and decision-making. This could then lead to improved retirement outcomes in the long-term.</p> <p>Although dashboards are intended to be free at the point of use, consumers may bear some indirect costs if industry pass on some costs through higher scheme charges.</p>
Impact on Businesses (employers and pensions industry).	<p><i>Familiarisation costs</i> There will be costs for the pensions industry to familiarise with new requirements. Illustrative costs are provided for familiarisation costs (£2m in year 1 only).</p> <p><i>Implementation costs</i> We expect material costs for pension schemes and providers to invest in new software/IT architecture to be able to provide data to the dashboard(s)</p> <p><i>Ongoing costs</i> To provide data, ongoing governance, and regulatory compliance on an annual basis</p>

	<p>One-off implementation costs and ongoing costs are estimated under three scenarios with different data requirements and coverage to highlight the potential range of impacts. Estimated one-off implementation costs range from £200m to £580m over 10 years and ongoing costs range from £245m to £1.48bn over 10 years.</p> <p>There may be some benefits to the pensions industry if the dashboard leads to less contact from members looking to retrieve their information (e.g. fewer customer telephone calls).</p>
Impact on Government and public sector	Costs to Government of providing State Pension data to the dashboard, convening an industry led delivery body and regulating compliance.
Wider impacts	If the dashboard led to higher engagement and increased levels of pension saving this would increase revenue for providers, but the intended behavioural effects are highly uncertain.

Measure: member protection – Transfers (see Annex I for further details)	
Summary of Measures	<p>This measure seeks to prevent pension benefits being transferred to fraudulent destinations in order to prevent losses of retirement income. It will do this by amending the existing statutory right to transfer provisions, so that it applies only if the conditions in the regulations are met. The intention is that the regulations would provide for at least one of the following conditions regarding the transfer destination to be satisfied:</p> <ul style="list-style-type: none"> - schemes operated by a firm that is authorised and regulated by the Financial Conduct Authority (FCA); or - authorised Master Trusts; or - schemes, where a genuine employment relationship between the member and the scheme employer can be established; or - Qualifying Recognised Overseas Pension Schemes, (QROPS) in certain circumstances, such as member residency in the same jurisdiction as the scheme.
Sections & Schedules	Part 5
Impact on Members	<p>We expect significant personal benefits for those who would have lost money through pension scams. Though this will be a relatively small minority of pension scheme members, Action Fraud estimate the average loss of pension benefits because of scams to be £91,000 per member.</p> <p>There will be new administrative costs to members to provide the relevant information required for a transfer to a QROPS or where an employment link needs to be established. We</p>

	<p>estimate it would cost an individual £3.91 to locate and send evidence of the employment link, and £4.49 to provide and send the required evidence for a transfer to a QROPS to establish the residency conditions. Where a member's pension transfer request is identified as containing indicators it is at risk of being a scam, these members will need to confirm to trustees that they have sought the relevant information and guidance. We estimate it would cost this subset of members approximately £6.25 to collate relevant evidence and communicate this to a trustee. Based on the estimated number of transfers that are requested each year this gives a total cost to pension scheme members of £0.4m per year.</p>
Impact on Businesses (employers and pensions industry).	<p>Impacts will depend on the employment link and QROPS compliance. Impacts will also depend on the volume of pension transfer requests identified as containing indicators of being a pension scam. This will depend on the policy detail, which will be set out in subsequent regulations (secondary legislation) and which will be subject to consultation. Based on how we currently envisage the criteria working in practice and certain assumptions, we provisionally assess the Equivalent Annual Net Direct Cost to Business (EANDCB) to be approximately £0.8 million.</p> <p>We estimate approximately 160,000 transfers take place each year, which will be subject to the regulations.</p>
Impact on Government and public sector	<p>Potential second order savings to means tested benefits from reduced losses to members due to scams. The direct benefit to members above is set out before any tax/benefit considerations, therefore not counted here to avoid double counting of benefits.</p>
Wider impacts	<p>No significant impacts identified.</p>

Measure: Member Protection – Administration Charge (see Annex J for further details)	
Summary of Measures	<p>This measure seeks to help trustees avoid inadvertent breaches of the charge cap measures (already in legislation), by reassuring them and their advisers about the intended scope of the definition. It will do so by amending the definition of “administration charge” in Schedule 18 to the Pensions Act 2014 and Section 1 of the Welfare Rights and Pensions Act 1999.</p> <p>The changes will make clear the purpose to which the Government intends the “administration charge” to be put.</p>
Sections & Schedules	<p>Part 5</p>
Impact on Members	<p>No direct impact on members.</p>

Impact on Businesses (employers and pensions industry).	We expect that some schemes (and eventually their sponsoring businesses) will benefit from the clarification / reduced uncertainty from: <ul style="list-style-type: none"> • reduced familiarisation costs, and • reduced risk of misinterpreting the requirements and incurring any costs associated with misinterpretation.
Impact on Government and public sector	No significant impacts identified.
Wider impacts	No significant impacts identified.

Measure: Climate Change Risk – Governance and Disclosure (see Annex K for further details)	
Summary of Measures	<p>The policy objective is to ensure effective governance of climate change as a financially material risk, and also an opportunity, to occupational pension schemes. Climate change has the potential to affect investments currently held by schemes; in order to secure the retirement income of their members, trustees must manage the risks and opportunities climate change will bring.</p> <p>The Act measures would allow for regulations to be made to require trustees and managers of occupational pension schemes to have in place effective governance, strategy and risk management processes to manage climate-related risks and opportunities. The regulations may require trustees and managers to take into account prescribed assumptions about the ways in which the climate may change and the steps that might be taken because of this, including the achievement of the Paris Agreement goal as defined in the Act.</p> <p>The Government would also be able to make regulations requiring trustees and managers to publish information relating to the effects of climate change on the scheme. This may include, for example, the results of scenario analysis and information about metrics and targets adopted in line with the TCFD (<i>Task Force for Climate-related Financial Disclosures</i>) recommendations. These publication powers therefore enable TCFD disclosures to be required of trustees and managers.</p>
Sections & Schedules	Part 5
Impact on Members	<p><i>Benefits</i></p> <p>The Government has consulted on policy proposals for regulations which would lead to improved expected retirement outcomes for members of schemes due to increased consideration and potentially better-informed decision making by trustees. Better informed trustees can better manage members' exposure to financially-material climate change risks, whilst also placing schemes in a better position to take advantage of the investment opportunities that will emerge during transition towards a lower carbon economy.</p>

	<p>If adopted, the proposals would result in increased transparency on an issue that research shows UK pension scheme members care about, which may ultimately lead to increased sense of engagement with and ownership of their pension pot.</p> <p>The proposals would also ensure that trustees are effectively managing the climate change risks and opportunities to their scheme. Whilst trustees should already be doing this in line with their fiduciary duty, codifying the requirement in legislation is likely to drive up standards, better protecting the assets and liabilities of the scheme from risk.</p>
<p>Impact on Businesses (employers and pensions industry).</p>	<p><u>Pension Schemes in Scope</u></p> <p>The Government has estimated that its consultation proposals would have an Equivalent Annual Net Direct Costs to Business (EANDCB) of £4.4m in 2016/17 prices. The specific cost elements are detailed in the impact assessment, previously published at consultation stage, in Annex K (in 2019/20 prices).</p> <p>The EANDCB comprises minor transition costs for trustees familiarising themselves with the proposed requirements and accompanying statutory guidance, and; the annual ongoing costs to meet requirements to carry out certain activities, including to produce and publish a TCFD report. The main activities driving total costs are the proposals to require trustees to undertake Scenario Analysis activities and the production of Metrics & Targets.</p> <p>The Department will produce a revised assessment of the EANDCB and other impacts at the secondary legislation stage, which will be subject to another consultation, if we envisage any changes to the assessment presented in this impact assessment.</p>
<p>Impact on Government and public sector</p>	<p><u>TPR</u></p> <p>The Pensions Regulator (TPR) would be responsible for monitoring and enforcing compliance with the proposed requirements. We have engaged with TPR and are working with them to estimate their costs ahead of making any secondary legislation.</p>
<p>Wider impacts</p>	<p>Reduced negative spillovers if trustees choose to address their exposure to carbon and other transition risks, whether by limiting investment in higher carbon sectors or firms who are less prepared for the low-carbon transition, or by active engagement and voting in relation to firms to mitigate climate-related risks to their investments.</p>

Annexes

Annex A: The Pensions Regulator (TPR) powers– information gathering powers

Annex B: The Pensions Regulator (TPR) powers– contribution notice powers

Annex C: The Pensions Regulator (TPR) powers– sanctions and fines

Annex D: The Pensions Regulator (TPR) Declarations of Intent

Annex E: Defined Benefit (DB) scheme funding –statement of strategy and appointment of Chair

Annex F: Defined Benefit (DB) scheme funding – long term funding and investment strategy

Annex G: Collective Money Purchase (CMP)


Annex H: The pensions dashboard

Annex I: Member Protection - Transfers

Annex J: Member Protection – Administration Charge

Annex K: Climate Change Risk – Governance and Disclosure

Annex A: The Pensions Regulator (TPR) powers– information gathering powers

 Department for Work & Pensions	<h2>Impact Assessment (Bill Final)</h2>	
Title of measure	Extending and enhancing the Pensions Regulator's Information Gathering Powers	
Lead Department/Agency	DWP	
Planned coming into force /implementation date	TBC	
Origin (Domestic/EU/Regulator)	Domestic	
Policy lead	Caroline Blackett	
Lead analyst	Eleanor King	
Departmental Assessment	Self-certified	
Total Net Present Social Value (over 10year period): £-7.8 m	Equivalent Annual Net Direct Cost to Business (EANDCB in 2016/17 prices)(over 10 year period: £0.9 m	Business Impact Status: Non-Qualifying Regulatory Provision
Summary - Intervention and impacts		
<p>Policy Background – Issue – Rationale for Intervention – Intended Effects</p> <p>To help protect pension scheme members, one of The Pensions Regulator's (TPR) functions is to investigate potential breaches of pension legislation. To do this, it has a range of information gathering powers including inspecting premises and the records held there, interviewing individuals and issuing formal written requests for information, and it can impose civil penalties or instigate criminal proceedings for non-compliance. However, the powers vary depending on the particular function TPR is undertaking or the type of pension scheme it is investigating, and are not comprehensive. The fact that TPR has the power to undertake inspections only in some circumstances, interviews in others, or issue civil penalties in different specified circumstances can hinder investigations and cause confusion among those being regulated.</p> <p>The policy objectives are:</p> <ul style="list-style-type: none"> to give TPR a harmonised, coherent set of information gathering powers which cover all of its functions. This will enable it to conduct investigations more quickly and efficiently, in line with its aim of being a quicker, tougher regulator. There will be less confusion about (and less inclination to challenge) the scope of the powers among those being investigated. to extend civil penalties and allow TPR to impose penalties for a wider range of low level breaches, where a criminal prosecution would be disproportionate. <p>Ultimately, the intended effect is to protect pension schemes and their members.</p> <p>As the current powers are in primary legislation, they can only be amended by further legislation.</p>		
Brief description of viable policy options considered (including alternatives to regulation)		
<p>The policy options considered were:</p> <ol style="list-style-type: none"> Do nothing: TPR would continue to face problems in undertaking its investigations, and lose the opportunity to do things in a more efficient way. Such a position is at odds with TPR's aim of being a faster, more efficient regulator, for which there is strong cross-party political backing. Non-legislative options: not possible as the objectives can only be achieved through amending primary legislation. 		

3. Amend primary legislation (preferred option): will provide TPR with the wider powers needed to carry out its investigations more efficiently and in a shorter time scale; and will provide for civil penalties to be imposed rather than a criminal prosecution for low level breaches.

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

There are already information gathering powers in the baseline. The proposed changes here are simply an extension and enhancement of these current powers. There are no changes to what information businesses need to be able to provide to TPR, the changes proposed relate to how the information is gathered by TPR. As such, we expect the costs incurred to businesses to be minimal and occur primarily at the familiarisation stage.

Businesses are also expected to benefit from these proposed changes. Some businesses sponsor multiple (and of different type) occupational pension schemes. In some cases, TPR have different information gathering powers across the different type of pensions. Enhancement and alignment may add some clarity and potentially reduce legal and consultation costs.

The Pensions Regulator (TPR)

There will be both costs and savings to TPR because of the proposed changes. Overall, we expect the net effect on TPR to be broadly cost neutral.

Members

Members will not incur any costs; they are only expected to benefit from this measure. Where TPR can obtain relevant information in a more timely and accurate manner they are likely to be able to take more effective and efficient action. This is expected to help increase the security of members' benefits.

Departmental Policy signoff (SCS): Joanne Gibson	Date: 14/03/2019
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Economist signoff (senior analyst): Joy Thompson	Date: 18/03/2019
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Better Regulation Unit signoff: Prabhavati Mistry	Date: 14/03/2019
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Additional detail – policy, analysis, and impacts

1. Rationale for intervention.

The Pensions Regulator (TPR) has different powers for different types of pension or functions, and this can be confusing for the individuals and companies being regulated. It also means that sometimes TPR does not have suitable powers to investigate in an efficient manner and is obliged to utilise alternative methods to obtain the information required. It also means that targets of investigations can challenge whether TPR has the power to investigate in the way that it wishes.

Currently TPR can require a person to attend an interview only to answer questions about information already provided in response to a written notice issued under section 72 of the Pensions Act 2004 and then only in connection with Automatic Enrolment (AE) duties or Master Trusts. It cannot require a person to attend an interview before a formal section 72 notice has been issued; and it cannot insist on an interview with anyone who has provided information under section 72 regarding other areas, e.g. occupational schemes including Defined Benefit (DB) or Defined Contribution (DC) pension schemes. These restrictions have resulted in TPR often needing to issue a series of notices under section 72 in

order to gain further information to take forward its investigation – in one case, over 100 – whereas the ability to interview the individual may have meant progress was much quicker.

Additionally, TPR has inspection powers allowing it to enter a range of premises to seek records or talk to people present during the inspection. However, the inspection power is limited to premises where pension scheme records are kept in connection with investigation into a range of requirements under specified pension legislation or where employers' records are kept in relation to investigations concerning AE. This means that there are a range of situations where it is not clear whether TPR can enter the premises. This loophole has been exploited by the targets of some investigations.

Not complying with these information-gathering powers is a criminal offence. However, criminal proceedings are time consuming for TPR to prepare and can be disproportionate for minor breaches. The fixed and escalating civil penalties, which TPR can already impose for non-compliance with Automatic Enrolment and Master Trust provisions, would be a suitable alternative.

2. Policy objective.

The policy objective is to harmonise and extend TPR's powers so that:

- It can interview a person it believes has relevant information in connection with any of its functions – that is, any of the provisions which it regulates – without the need for a written request for information to have already been issued under section 72;
- It can enter a wider range of premises where relevant records or information are held, for the purposes of an inspection.
- Additionally, to give TPR the ability to issue civil penalties for non-compliance with section 72 notices, interview or inspections where this might be more appropriate than a criminal prosecution.

3. Evidence behind the rationale for intervention

The Department undertook a comprehensive review - including industry consultation and working closely with TPR - of the condition of DB pensions, and published a white paper 'Protecting defined benefit pensions'² in March 2018. The paper concluded that 'although most employers want to do the right thing, we need to guard against the small minority of employers who may be content to put it at risk'.

As set out in the white paper, TPR have provided a rationale and evidence supporting the proposal to extend and enhance its information gathering powers. Investigations can take months if the only way that TPR can obtain information is through a series of written requests. For example, over the course of one high profile investigation, TPR issued a total of 123 separate section 72 notices over 18 months. Our view is that 'it is possible that this timeframe could be reduced significantly through a combination of early use of an interview power and an inspection power'³.

Regarding the introduction of a civil sanction, in addition to the currently available binary choice of no sanction or criminal prosecution - based on experience of having both civil and criminal sanctions available in the AE sector - TPR advises that cases without court involvement will take, on average, around half the time than cases where court is involved.⁴ This suggests that a more proportionate approach, where relevant, could be beneficial to both TPR and the regulated businesses.

² Protecting Defined Benefit Pension Schemes (White Paper- March 2018): [Link](#)

³ White Paper: [link, page 52.](#)

⁴ White Paper: [link, page 52.](#)

4. Baseline Scenario;

This impact assessment examines the impact of the extension and enhancement of TPR's current information gathering powers. There are already established information gathering powers in the baseline scenario. Currently TPR can require a person to attend an interview only to answer questions about information already provided in response to a written notice issued under section 72 of the Pensions Act 2004 and then only in connection with Automatic Enrolment (AE) duties or Master Trusts. As such, in the baseline scenario all employers and schemes used for AE and those in Master Trusts will be familiar with the requirements of an interview after a section 72 notice has been issued. These powers are not in places for employers/schemes that are not used for these purposes. Likewise, TPR have the power to inspect employers/anyone related to a scheme in relation to their AE duties. TPR can also visit premises where pension scheme records are held or pension scheme members are employed in connection with occupational pensions including DB and DC.

5. Scope – numbers potentially affected

The proposed changes are designed for and will be applicable to schemes and employers that TPR regulate. They will therefore be applicable for occupational pension schemes and those used for automatic enrolment. As explained in the baseline scenario, there are certain areas of pensions in which they already exist. All schemes and their associated employers will be subject to the proposed changes. However, only a small subset are likely to be affected as the majority comply with the requirements and will not be affected in any way (as discussed in more detail in the Department's white paper).

5.1 Scheme and Employer Volumes

Table 1: Scheme Volumes

Type of Scheme	Scheme Volumes
Occupational DC	30,590 ⁵
Occupational DB	5,524 ⁶
Occupational DC schemes used for AE	950 ⁷
Master Trusts	74 ⁸

Table 2: Employer Volumes

Type of Employer	Employer Volumes
Occupational DC (AE)	598,145 ⁹
Occupational Hybrids (AE)	2,344 ¹⁰
DB sponsoring employers	14,000 ¹¹
DC (Non-AE employers)	80,000 ¹²
AE employers	1,448,774 ¹³

5.2 Power to require attendance for an interview

⁵ DC Trust 2018-19 [Link](#) – Occupational DC schemes with more than 2 members excluding hybrids.

⁶ The Purple Book 2018 page 10 [Link](#)

⁷ DC Trust 2018-19 [Link](#)

⁸ DC Trust 2018-19 [Link](#)

⁹ Automatic enrolment commentary and analysis April 2017-March 2018, [Link](#) page 22.

¹⁰ Automatic enrolment commentary and analysis April 2017-March 2018, [Link](#) page 22.

¹¹ Protecting Defined Benefit Pension Schemes (White Paper)- March 2018. [Link](#)

¹² TPR estimate of the number of Non-AE DC Occupational employers.

¹³ AE Declaration of compliance February 2019- [Link](#)

As discussed in the baseline scenario above, TPR currently have the power to require attendance for an interview in connection with Automatic Employer duty- after a Section 72 notice has been issued. This power will be extended to give TPR the power to interview people it believes hold relevant information without having to issue a Section 72 notice, in connection with all types of occupational pension schemes, not just those for AE and Master Trusts.

5.2.1 AE Employer Duty/Schemes used for AE

TPR already has the power to interview people in connection with information provided in response to a section 72 notice regarding employer duties and schemes used for AE. There are 950 DC schemes used for AE¹⁴, the majority of the schemes used for AE are DC schemes¹⁵. From April 2017 to March 2018 TPR issued 249 Section 72 notices regarding AE¹⁶. These notices are likely to have gone to the employer as an AE investigation tends to relate to an employer not fulfilling their duties rather than relating to anything the scheme has done. All eligible employers have to comply with their AE duties as of February 2018¹⁷. As at the end of January 2019, over 1.4m businesses have declared compliance with their AE duties since 2012¹⁸.

There is no information on the number of these notices that have led to an interview, it is reasonable to assume that not all of these section 72 notices led to an interview. For our estimates we use this as a proxy for the number of interviews TPR may request in future for schemes used for AE and in relation to AE employer duty.

5.2.2 Occupational Schemes and Employers (Non-AE).

DB Schemes/DB employers

TPR have provisionally assessed that the use of this power is likely to be considered in every future avoidance case. In particular, in relation to undertaking initial discussions with trustees and receiving factual accounts directly from professional advisors¹⁹. The table below shows the current open avoidance cases as at 31 December 2017. The total number of open avoidance cases were 29 (putting it into context – this is approximately 0.15% of the 14,000 DB sponsoring employers and 5,524 DB schemes) – see more detail in table 1 below. This indicates that the power is only likely to be used for a very small subset of the DB landscape.

Table 3: Current open avoidance cases (contribution notice and financial support directions) as at 31 December 2017²⁰.

Case Stage	Number of Cases
Pre- Investigation	12
Investigation	10 (5 are contribution notice case with approx.12 separate targets)
Warning Notice	1 (contribution notice case with 9 separate targets)
DP or Upper Tribunal	2 (1 is a contribution notice case- BHS – with 2 separate targets)
Other action/closing	4 (1 x no action, 1 x clearance provided, 2 x settled)
Total	29 (7 identified contribution notice cases)

Secondary source: DB white paper, p. 49.

¹⁴ DC Trust Stats- 2018-19 [Link](#)

¹⁵ Automatic enrolment Commentary Analysis 2018: [Link](#)

¹⁶ Automatic enrolment Commentary Analysis 2018: [Link](#), page 6.

¹⁷ For more information on AE [link](#)- Page 3.

¹⁸ AE Declaration of Compliance Monthly Report February 2019- [Link](#)

¹⁹ White paper, page 51.

²⁰ Source: TPR management information.

The figures in table 1 above are point-in-time figures. However, anti-avoidance cases tend to last several months and even years in some cases. Having consulted TPR we believe the figures give a good proxy for annual average caseload.

DC schemes/DC employers

In the absence of better information on how many will be invited for an interview. We assume the likelihood would be the same as in automatic enrolment. Accounting for the difference in the numbers of DC scheme and employers, and AE employers we assume it's approximately 122²¹ pa.

5.3 An inspection power

TPR already have wide-ranging inspection powers:

- They can visit premises where pension scheme records are held or pension scheme members are employed in connection with DB and DC pensions
- They can visit premises where employer records are kept or employees work in connection with AE.

TPR cannot currently visit in connection with DB or DC pensions, any premises where employer/company records but not pension scheme records are held unless pension scheme members happen to be employed at those premises. Generally, these gaps in TPR's current inspection powers applies to DB schemes, however the enhanced powers will also cover some other functions including DC.

DB Schemes/Employers

TPR provisionally estimate, based on their casework and operational experience that they would be likely to use this power in around a quarter of cases at early stages of an investigation, and its exercise is likely to be linked to early engagement meetings²².

As the above table shows, there were 29 open avoidance cases as at 31 December 2017. Having consulted TPR we believe the figures give a good proxy for annual average caseload. Assuming that the power would be used in a quarter of those cases would give us an approximate estimate of 7 cases per annum (that would have involved the use of inspection power had it been a power at the time of investigation).

DC Schemes/Employers

As discussed above, the gaps in the current information gathering powers that TPR have mainly relate to DB. This is largely a result of the number of active members contributing into a DB scheme compared to DC. There are 10.4m DB members with 1.3m actively contributing to their DB pension scheme²³ (a proportion of 12.5%). However, in DC there are an estimate 16.7m members with 9.2m being active members (a proportion of 55%)²⁴.

²¹ = Number of DC trust schemes (30,590) + TPR estimate of 80,000 DC trust employers + 598.145 AE DC trust employers
*0.000171869= 121.81 (Rounded to 122).

²² Protecting defined benefits pensions (White Paper, March 2018)- [Link](#)

²³ The Purple Book 2018: [Link](#)

²⁴ DC Trust Stats- 2018-19 [Link](#)

It is difficult to predict with any certainty how many times TPR will use these powers in the case of DC schemes. On the one hand, the gaps in TPR's current inspection powers apply to DB schemes. However, there are more DC schemes and employers than DB schemes. We arbitrarily assume that the number of cases where the extension of these powers will be used in DC will be similar to DB - 7 cases per annum.

5.4 Extending the fixed and escalating penalties to cover breaches of the information gathering powers.

There is already a criminal offence in place for breaches of the information gathering powers. Anyone who TPR requests information from through information gathering powers, outlined above, could be in scope for this- if they were to breach the information gathering powers. It is reasonable to assume that, given the lower costs of pursuing a civil penalty in comparison to a criminal sanction, TPR will be more likely to pursue civil cases than currently go through criminal proceedings. As such, numbers are likely to be higher than the current number of criminal offences.

6. Costs and Benefits to Businesses

The changes will not alter the existing requirements of how schemes should be run, and what information schemes and/or their sponsoring businesses have to provide to TPR. The changes will only affect those that are under investigation; and of these, only a subset that do not give TPR the information they need without these additional information gathering powers being used.

6.1 Familiarisation Costs

As discussed above these powers are already present in the baseline for a number of employers and schemes. There is no change to the how the scheme is run and what information schemes and/or their sponsoring businesses have to provide to TPR, the proposed change here relates only to the method in which TPR can ask for this information. Schemes and employers, which currently comply and cooperate, will not be expected to spend long familiarising with the proposed changes here, if at all. As mentioned above, there are a number of areas where the powers currently do or do not exist and therefore there is expected to be differing levels of familiarisation for different types of schemes/employers.

6.1.1 Familiarisation AE employers and Master Trusts

TPR currently have the power to require attendance for an interview in connection with Automatic Employer duty- after a Section 72 notice has been issued. TPR can also inspect premises where employer records are kept or employees work in connection with AE. The key change here for employers with a scheme used for AE is that there can be an interview without a Section 72 notice being issued. In the consultation response it was highlighted that 'it is the intention that prior written notice, along the lines of the notice currently issues to obtain information under section 72 of the Pensions Act 2004, will be issued by TPR'. Therefore, we assume the cost of familiarising with these changes for AE employers to be negligible. Also, TPR has these powers in relation to Master Trust schemes as well- therefore we assume the cost of familiarising with these changes for Master Trust schemes to be negligible.

6.1.2 Familiarisation occupational DB and DC AE employers

As AE employers, these are already aware of the process of an interview and inspection. However, as a result of these changes it could mean that they are interviewed/inspected for reasons not directly related to AE- where TPR would have only had the right to issue a section 72 notice

requesting information previously. Therefore, we assume that these employers will only need to familiarise for a short time rather than the full familiarisation of other employers.

There is no split available within the declaration of compliance statistics as to whether the employers are private or public sector. The vast majority of employers that continue to use DB schemes are in the public sector, we therefore expect that the number of private sector employers that use an occupational DB scheme for AE to be relatively lower than the 11,704²⁵ employers that declared compliance using a DB scheme. For this purpose, we cautiously assume that all private sector employers with an occupational DB scheme will have to go through the full familiarisation process rather than the shorter process described below.

- 598,145 DC employers and 2,244 Hybrid employers
- One employee from each business takes 15 minutes to read through the change and then transpose.
- Hourly wage of a professional is £25.40²⁶.
- Familiarisation cost of £3.8 million.

6.1.3 Familiarisation occupational DB and DC non-AE employers

Employers sponsoring schemes that are not used for automatic enrolment will need to fully familiarise with the proposed changes. There may be different levels of familiarisation for these employers, this will depend on whether TPR currently has the right to inspect their premise. However, this number is difficult to accurately estimate- so for this purpose we assume all of these employers go through full familiarisation with the legislation.

- 14,000 DB employers and 80,000²⁷ DC non-AE employers.
- One employee from each business takes 1 hour to familiarise (assumption based on the familiarity with existing legislation and short amendments). It is assumed there will be 30 minutes of reading and then 30 minutes to transpose and inform others.
- Hourly wage of a professional is £25.40²⁸.
- Familiarisation cost of £2.4 million.

6.1.4 Familiarisation occupational DB and DC (excluding Master Trusts)

All occupational DB and DC schemes will be required to familiarise with the changes, except for Master Trusts where the provisions to interview, after issuing a section 72 notice, and inspect are already in place. There may be different levels of familiarisation for these employers, this will depend on whether TPR currently has the right to inspect their premise. However, this number is difficult to accurately estimate- so for this purpose we assume all of these schemes will go through full familiarisation with the proposed changes to legislation.

- 5,524 DB schemes (average of 3.2²⁹ trustees per scheme) and 30,516³⁰ occupational DC schemes excluding Master Trusts (average of 2.5³¹ trustees per scheme).

²⁵ Automatic enrolment commentary and analysis April 2017-March 2018, [Link](#) page 22.

²⁶ The median hourly wage for a professional is £20.00 in the Annual Survey of Hours and Earnings 2017 revised. Table 2.5. This is uplifted by 27% for overheads from the previous version of the Green Book- no updated figure was available.

²⁷ TPR estimate for non-AE employers

²⁸ The median hourly wage for a professional is £20.00 in the Annual Survey of Hours and Earnings 2017 revised. Table 2.5. This is uplifted by 27% for overheads from the previous version of the Green Book- no updated figure was available.

²⁹ Trustee Landscape Quantitative Research 2015. Figure 3.2.3 Number of trustees by benefit type, page 14. [Link](#)

³⁰ = 30,590-74 Master Trusts

³¹ Trustee Landscape Quantitative Research 2015. Figure 3.2.3 Number of trustees by benefit type, page 14. [Link](#)

- All trustees will need to familiarise. It takes 1 hour to familiarise (assumption based on the familiarity with existing legislation and short amendments). It is assumed there will be 30 minutes of reading and then 30 minutes to transpose and inform others.
- Hourly wage of a trustee is £28.50³².
- Familiarisation cost of £2.7 million.

6.1.5 Total Familiarisation Costs

The total familiarisation costs incurred to businesses are £8.9 million.

6.2 Ongoing / other costs

At its face value (gross terms), participating in and preparing for an interview results in a cost. For example, in the form of an opportunity cost (time spent in the interview when could be completing other business/scheme related duties) or advice sought when preparing for an interview. A similar argument applies to inspection of premises. However, this is just a different form of gathering the same information that schemes/businesses are obliged to provide in the baseline. There is likely to be an increase in the number of interviews and inspections, but this is instead of issuing multiple section 72 notices to request the same information from the employer/scheme. Therefore, when compared against the baseline we assess the additional cost to be either zero or negligible.

6.2.1 Ongoing/other costs – sensitivity analysis

For the purposes of sensitivity testing (worst case/high cost scenario), we arbitrarily assume that no similar information gathering exists in the baseline. Based on the ‘Scope’ section above, assume that there would be 414 instances³³ where the new information gathering powers are used, per year on average. Also, assuming that:

- Preparation for the interview / inspection takes 1 day (8 hours)
- One interview or premise inspection takes 4 hours,
- That an affected individual’s time is worth £28.50 per hour (in line with the hourly wage assumption per trustee above),
- It would involve 3 individuals, per case;
- This would result in a total cost to business per year of £0.43 million³⁴.

We assess there to be no cost to business arising from the introduction of a civil sanction and for the extension of the fixed and escalating penalties to cover breaches of information gather provisions - on the basis that we do not treat a fine as a cost given that it is a result of wrongdoing³⁵. In addition, the most severe type of sanction – criminal sanction – already exists in the baseline; and so we do not anticipate additional legal costs as a result of introducing a less severe/more proportionate sanction.

6.3 Total Costs to business

In our central scenario we assume that the costs incurred to businesses will be at the familiarisation stage only. The costs of this would be £8.9 million in the first year and would be a one-off cost. Over the ten-year period of appraisal, the EANDCB of this measure is £0.9 million in 2016 prices, with a 2017 present value.

As discussed above, we have conducted sensitivity analysis around our assumption that there will be no ongoing costs to business. Using the scope section, we have estimated that this ongoing cost to business could total £0.43 million per year. In this scenario, the Equivalent Annual Net

³² The median hourly wage of a corporate manager or direction is £22.44 in the Annual Survey of Hours and Earnings 2017 revised. This is uplifted by 27% for overheads from the previous version on the Green Book- no updated figure was available.

³³ Interview – 29 DB, 249 AE, and 122 other DC; and inspection – 7.25 DB, and 7.25 all DC.

³⁴ = 414 x (8+4) x 28.4988 x 3 = 425,064

³⁵ For more information on this, please see the IA on Sanctions and Fines.

Direct Cost to Business (EANDCB) would be approximately £1.3 million in 2016 prices, with a 2017 present value.

6.3 Benefits to Business

We anticipate there to be some benefits to business. These would be case specific and depend on the number of Section 72 notices that would have been issued in the baseline compared to the length of time involved in an interview/inspection. As this is case specific, we believe that quantifying these benefits would be disproportionate. However, we give a qualitative assessment:

- Where TPR can obtain relevant information in a more timely and accurate manner they are likely to be able to take more effective and efficient action. This is expected to at least in some cases; result in a benefit to sponsoring businesses by reducing uncertainty during the investigation period³⁶. Businesses may also benefit from a reduction in the period of time they are under investigation.
- Some businesses are sponsoring multiple (and of different type) occupational pension schemes. For example, a business may have a closed DB scheme and scheme for AE. Currently, in some cases TPR have different information gathering powers across different types of pensions. This may be confusing for some of those businesses, and hence this enhancement and alignment of information gathering powers may add some clarity and possibly reduce legal and consultation costs.

7. Costs and Benefits to Members

Costs

There will be no costs to members as there is no need for them to familiarise with the changes or implement them.

Benefits

As set out in the white paper – where TPR can obtain relevant information in a more timely and accurate manner they are likely to be able to take more effective and efficient action. This is expected to help increase the security of members' benefits.

8. Costs and Benefits to the Government (Including TPR and PPF)

We anticipate there to be both costs and savings to TPR resulting from the changes. On one hand, TPR's staff will need to familiarise with the changes; and staff/time will be needed to carry out the activities. On the other hand, they already have to gather the same information in the baseline; the extended and enhanced information gathering powers will make it easier to do that – i.e. efficiency savings. For example, giving TPR the power to interview will mean they will not have to go to the scheme on multiple occasions asking for information. In addition, aligning TPR's information gathering powers in DB with those in DC and AE is expected to increase flexibility, optimise operations, and as such generate savings for TPR. We anticipate the net effect to TPR be broadly cost neutral.

It is also important to note that TPR is funded by the General levy placed on the pension schemes. Levy is excluded from business costs for the purposes of the Equivalent Annual Net Direct Cost to Business (EANDCB) or Business Impact Target (BIT).

9. Small and Micro Business Assessment (SaMBA)

³⁶ Same lines as White paper- [link, page 51](#).

There are some impacts on businesses in the familiarisation stage. These costs will be incurred by all schemes and employers that TPR regulate. Small and micro businesses that have occupational DC or DB schemes may experience an increase in costs. The familiarisation costs are higher for those employers not used for automatic enrolment and schemes excluding master trusts.

There is information in the Annual Survey of Hours and Earnings (ASHE) data set on the size of DB and DC employers with active members presented below- this also includes those who have been automatically enrolled into the scheme. This will only include those who are actively contributing to a DB/DC pension so will exclude members who are in schemes closed for future accrual or deferred members. However, it helps to provide an indication of the size of employers. The table below shows the proportion of private sector and not for profit active DB and DC members by employer size.

Table 5: Proportion of active DB and DC members by employer size³⁷.

Size of employer	Proportion of active DC Members	Proportion of active DB members
0	0%	0%
1-9	7%	2%
10-49	16%	10%
50-99	6%	4%
100-499	13%	14%
500-999	6%	9%
1000+	51%	61%
All	100%	100%

This provides an indication of the size of the affected employers- it suggests 23% of DC active members and 12% of DB active members work in small and micro businesses.

There may be an impact on small and micro businesses that sponsor pension schemes- especially at the familiarisation stage. However, familiarising is expected to be reasonably straightforward- therefore we do not expect there to be a disproportionate impact on small and micro businesses. In addition, currently TPR have a number of information gathering powers and can request information from schemes and/or their employers through a Section 72 notice, regardless of their size. The proposed changes here are simply changing the method in which TPR can request this same information- either through an interview or through an inspection.

10. Monitoring and Evaluation

We will work with TPR and the industry in order to understand and review post implementation.

³⁷ Source: DWP estimates derived from ONS ASHE GB. Figures rounded to the nearest 1%.

Annex A: Estimated direct costs to businesses

Familiarisation Costs


Familiarisation-Central Scenario	Description	How many?	Cost ³⁸	Assumptions	Rationale
AE employers and Master Trusts	Have to familiarise with the fact that they can now be interviewed without a Section 72 notice being issued first.	1,448,774	Assessed to be negligible.	-	The only difference is that can interview without first issuing a section 72 notice. Consultation response indicates that there will still be a notice issued similar to Section 72.
Occupational DC & Hybrid AE employers	Familiarise with the fact they can be interviewed/inspected for reasons not necessarily relating to AE	600,489	3,810,000	Hourly wage of a professional is £25.40. One employee spends 15 minutes familiarising.	Already familiar with the process of inspection and interview power- just familiarising that could happen for different reasons to before.
Occupational DB employers	Familiarise with the full changes.	14,000	360,000	Hourly wage of a professional is £25.40. One employee required to familiarise- takes 1 hour to familiarise with the changes.	This is an extension of existing provisions and penalties to other areas of pensions so assumed the content will already have some familiarity. Assumed 30 minutes reading time and then 30 minutes to transpose.
Occupational DC Non-AE employers		80,000	2,030,000		
Occupational DB schemes	Familiarise with the full changes.	5,524	500,000	Hourly wage of a trustee is £28.50. All trustees have to familiarise- takes 1 hour to familiarise with the changes. There are on average 3.2 trustees of DB schemes and 2.5 trustees of DC schemes.	This is an extension of existing provisions and penalties to other areas of pensions so assumed the content will already have some familiarity. Assumed 30 minutes reading time and then 30 minutes to transpose.
Occupational DC schemes (excluding Master Trusts)		30,516	2,170,000		
Total			8,880,000		

³⁸ All figures are rounded to the nearest 10,000.

Ongoing Cost- Sensitivity Analysis.

Ongoing Cost-Sensitivity Analysis	Description	How many?	Cost	Assumptions	Rationale
Cost of complying with the requirements.	The cost of preparing for an interview/inspection.	414	430,000	Preparation for interview/inspection takes 8 hours. Taking part in the interview/inspection takes 4 hours. Hourly wage of individuals involved assumed to be in line with trustee hourly wage of £28.50. Three individuals involved.	There is existing information gathering powers in the baseline. Although, there is a cost incurred in terms of preparing for the interview/inspection- it is instead of having to reply to section 72 notices in the baseline. As such, we believe the ongoing cost as a result of the changes to be negligible.

Annex B: The Pensions Regulator (TPR) powers– contribution notice powers

 Department for Work & Pensions		<h3>Impact Assessment (Bill Final)</h3>	
Title of measure		Amendments to The Pension Regulator’s Contribution Notice regime	
Lead Department/Agency		DWP	
Planned coming into force /implementation date		TBC	
Origin (Domestic/EU/Regulator)		Domestic	
Policy lead		Charlotte Farrow	
Lead analyst		Eleanor King	
Departmental Assessment		Self-certified	
Total Net Present Social Value (over 10year period) (In 2016/17 prices) £-1.5m	Equivalent Annual Net Direct Cost to Business (EANDCB) (In 2016/17 prices) (over 10 year period: £0.2m	Business Impact Status: Non-Qualifying Regulatory Provision	
Summary - Intervention and Impacts			
<p>Policy Background – Issue – Rationale for Intervention – Intended Effects</p> <p>The Pensions Regulator(TPR) is responsible for: protecting occupational pension scheme members’ savings, improving the way that occupational pension schemes are run, and reducing the risk of occupational pension schemes ending up in the Pensions Protection Fund (PPF).</p> <p>In order to safeguard Defined Benefit (DB) pension scheme members’ benefits, and to minimise the risk of a call on the PPF, TPR has a suite of powers, including the power to issue Contribution Notices (CNs) to recover any losses caused to a defined benefit pension scheme as a result of avoidance behaviours.</p> <p>TPR’s CN³⁹ regime is generally fit for purpose. However, following a small number of CN cases, it has become apparent that changes to the current regime is necessary to ensure that the regime is sufficient in its protection of DB scheme members’ savings. Following consultation with TPR and the pensions industry, it is clear that the existing CN regime is at times unclear and leads to situations in which parts of the existing regime does not sufficiently deter wrongdoing, which is putting scheme members’ savings at risk. Therefore, intervention is necessary to amend the CN regime.</p> <p>Amendments to the CN regime will tighten the rules against abuse within the pensions industry by providing greater clarity around the meaning of current legislation and by supporting TPR with their ambition to be a “clearer, quicker, tougher” regulator. This will also enhance the security of DB scheme members’ pension savings.</p>			
<p>Brief Description of Viable Policy Options Considered (Including Alternatives to Regulation)</p> <p>Option 1: Do Nothing:</p> <p>The current CN legislation would still be applicable. There would be no improvements: the appropriate application of legislation would still be unclear; the application of TPR’s CN powers would continue to inadequately protect DB scheme members’ savings.</p> <p>Option 2: Non-Legislative Options:</p> <p>Non-legislative options, such as guidance and codes of practice, wouldn’t address the problems in the legislation that have been identified. This includes ensuring that the cap⁴⁰ on the amount that can be</p>			

³⁹ A CN is a fault-based mechanism by which TPR issue a demand to a target to pay a set amount of money for a pension scheme.

⁴⁰ The amount that can be specified in a CN is subject to a cap. This cap represents the maximum amount that can be specified under a CN. Currently, the cap is the value of the scheme’s Section 75 deficit as calculated at the point of the act, or failure to act, in question.

specified in a CN does not inappropriately curtail the amount that can be recovered by a scheme. The proposed changes to enhance the CN regime can only be made through amendments to the existing Primary Legislation.

Option 3: Legislation (Preferred option):

Clarifying and strengthening the existing legislation will ensure that TPR's CN power is up-to-date and fit for the future, that TPR is able to appropriately protect scheme members' pension savings, and will enable the Government to fulfil its objective to enhance the security of DB scheme members' pension savings. Engagement with the pensions industry through consultation and roundtable discussions also demonstrated support for enhancements to the existing CN legislation.

Preferred option: Summary of Assessment of Impact on Business and Other Main Affected Groups

Businesses

All 14,000 DB sponsoring employers⁴¹ and the 5,524 private sector funded DB schemes⁴² will be required to familiarise with the changes in the CN legislation. This incurs a one-off cost of approximately £1.7 million.

The changes to the CN framework may result in a different value of a CN being issued. This is because the cap (the maximum value at which a CN can be set) may be determined at a later date than in the current framework. This could result in a higher/lower cap being set, which in turn may alter the value of the CN issued and incur a change in costs to business compared to the counterfactual. The CN is a fault based mechanism, and for the purposes of this assessment, the figure specified in a CN is assessed similarly to a fine and considered to incur no direct cost to business.

Other Main Affected Groups

The impact on members of occupational DB pension schemes is assessed to be positive, as members may benefit from an increased security of their pension benefits and reassurance that the pension promise will be met, however this is disproportionate to quantify. Additionally, we expect both TPR and the Pension Protection Fund (PPF) to experience both costs and savings as a result of these changes.

This is discussed in more detail in the additional detail sections below.

Departmental Policy Signoff (SCS): Joanne Gibson Date: 07/03/2019

Economist Signoff (Senior Analyst): Rhys Cockerell Date: 13/03/2019

Better Regulation Unit Signoff: Prabhavati Mistry Date: 12/03/2019

Additional Detail – Policy, Analysis, and Impacts

1. Proposed Legislative Changes

TPR's CN powers are a useful tool for TPR to use to take action where an act or failure to act has occurred which is detrimental to the DB scheme, and where losses need to be recovered.

⁴¹ Protecting Defined Benefit Pension Schemes (White Paper- March 2018), page 3. [Link](#)

⁴² The Purple Book 2018- page 10 [Link](#)

A CN is a fault-based mechanism by which TPR issue a demand to pay a set amount of money where a person was party to an act, or failure to act, which had a particular main purpose to avoid a liability to the scheme or which was materially detrimental to scheme members. This can be the total amount, or partial amount, of the actual or hypothetical S75 debt⁴³ due to the scheme at the time the ‘act’ or ‘failure to act’ occurred. Targets of CNs, including the sponsoring employer, or person(s) connected or associated with the employer, are required to pay a prescribed sum to a scheme or, in some circumstances, to the Pension Protection Fund (PPF). To issue a CN TPR must consider, amongst other things, that it is reasonable for the target to pay the sum specified in the CN. TPR can start the procedure seeking a CN up to six years after an act, or failure, took place.

Four amendments to the CN regime are being pursued to clarify and strengthen the legislation. Amendments to the CN regime will help TPR and the pensions industry as the legislation will be clarified to ensure that safeguards are improved.

The proposed legislative changes are outlined in full in Annex A.

Primary legislation will also set out:

- The penalty for failure to comply with a Contribution Notice.
- The criminal offence for failure to comply with a Contribution Notice.

It is already expected that targets comply with CNs in the baseline. The impact of applying the above is assessed within the summary bill impact assessment⁴⁴.

2. Baseline Scenario

TPR’s CN regime was legislated for in the 2004 Pensions Act⁴⁵. TPR have been using their CN powers since then, but have identified potential improvements to their current powers which would benefit the industry, PPF and TPR themselves.

Since 2004, there has been one CN issued and the value was for £382,000. However, TPR have issued a number of Warning Notices for higher amounts, often several million, where cases have settled prior to a CN being issued. Therefore, this one CN that has been issued is not necessarily reflective of the impact that TPR’s CN powers have due to the high proportion of settlements.

The table below shows the number of current open CN and Financial Support Direction⁴⁶ (FSD) cases as at 31 December 2017.

Table 1: Current Open CN and FSD Cases as at 31 December 2017⁴⁷.

Case Stage	Number of Cases
Pre- Investigation	12
Investigation	10 (5 are Contribution Notice case with approx.12 separate targets)
Warning Notice	1 (Contribution Notice case with 9 separate targets)
Determination Panel (DP) or Upper Tribunal	2 (1 is a Contribution Notice case- BHS – with 2 separate targets)

⁴³ Section 75 debt – the debt owed by an employer to the trustees of the scheme, calculated in accordance with S75 of the 1995 Pensions Act.

⁴⁴ The impact of the civil penalty and criminal offence is assessed in the summary enactment IA.

⁴⁵ [Link](#)

⁴⁶ A FSD, unlike the CN, is a no-fault based mechanism by which TPR can issue a notice to a target requiring them to put in place financial support for a pension scheme.

⁴⁷ Source: TPR management information.

Other action/closing	4 (1 x no action, 1 x clearance provided, 2 x settled)
Total	29 (7 identified Contribution Notice cases)

The figures in table 1 above are spot-in-time figures. However, CN and FSD cases can last several months and even several years. Having discussed these figures with TPR, we believe that they give a good, possibly prudent, proxy for their annual average caseload. However, this refers to caseloads where they are considering whether to issue a CN or an FSD, and does not refer to the number of cases where they have issued a CN or FSD.

3. Scope

Defined Benefit pension schemes are an important part of the UK pension system. There are approximately 10.4 million members of 5,524 DB schemes⁴⁸, with approximately 14,000⁴⁹ sponsoring employers and an estimated £1.5 trillion in assets⁵⁰. Changes to the CN legislation could have an impact on all DB schemes, however the changes will only have a direct impact on those who are issued with either a CN.

If we were to assume that there is only one case per scheme, table 1 shows that 0.5% of schemes were involved in open avoidance cases as at 31st March 2017. Therefore, it is clear that the outlined changes to the CN regime are likely to affect only a very small proportion of schemes and their sponsoring employers. In fact, since TPR were established in 2004, they have only issued 1 CN, though they have settled in a number of cases prior to having to issue a CN.

4. Evidence Behind Rationale

4.1 Rationale for Changing the CN Regime

TPR reported that the legislation as it currently stands is not clear and leads to situations in which the application of TPR's CN powers does not properly help to protect member benefits. This has resulted in very few numbers of CNs being issued: as stated above only 1 CN has been issued.

As a result, TPR engaged with DWP to highlight some of the improvements that could be made to the existing regime in order for them to adequately protect pension scheme members. Following ongoing dialogue with TPR, DWP published a White Paper in March 2018⁵¹ which proposed a review of TPR's Anti-Avoidance powers, and, if needed, legislation to improve these powers. This was also reflected in the 2017 Conservative Party's Manifesto⁵² commitment to tighten the rules against abuse of pension schemes.

In June 2018, DWP published the consultation: 'Protecting Defined Benefit Pension Schemes - A Stronger Pensions Regulator', which set out the DWP's proposals to amend and improve TPR's existing powers. During consultation, a number of pensions industry experts and professionals provided their views on, and support for, the majority of the proposals. The Government took into

⁴⁸ The Purple Book 2018: Page 10 [Link](#)

⁴⁹ Protecting Defined Benefit Pension Schemes- (White Paper, March 2018) [Link](#)

⁵⁰ The Purple Book 2018: Page 12 [Link](#)

⁵¹ Protecting Defined Benefit Pension Schemes- (White Paper, March 2018) [Link](#)

⁵² [Link](#)

account consultation responses, and outlined in the Government Response which proposals would be taken forward⁵³.

4.2 The CN Framework

The proposed changes to the CN framework, as outlined in Annex A, will allow TPR to ensure that the CN amount requested reflects the value of the deficit resulting from the act as at the point of the determination, and will ensure that the weakening of the employer covenant⁵⁴ is a valid circumstance in which TPR can issue a CN.

Consultation respondents supported these changes, agreeing that they would help to clarify and strengthen the existing CN legislation, and that they would be a proportionate way to ensure the security of DB scheme members' savings.

- When considering the measures to ensure that the CN amount is reflective of the value of the deficit as at the point of the determination, consultation respondents noted that the proposed changes would provide greater certainty for targets, represented an improved deterrent, would discourage procrastination, and would be a flexible tool for scheme recovery.
- When considering the measure to ensure that the weakening of the employer covenant⁵⁵ is a valid circumstance in which TPR can issue a CN, consultation respondents noted that this would provide greater clarity for business as it is logical to recognise a weakening of the sponsoring employer's covenant as being a valid reason for the Material Detriment Test to be met.⁵⁶

5. Costs to sponsoring businesses

5.1 Familiarisation Costs

Whilst CNs are only issued to a small number of DB schemes, it is assumed that all DB Schemes and sponsoring employers will familiarise themselves with any changes to the CN legislation. At this stage, we do not know the length of these regulations (i.e. how many pages). However, given that the proposed measures are for small adjustments to the existing CN framework, we expect familiarisation to be reasonably straightforward. We therefore arbitrarily assume that it will take two hours for each trustee to read through and 'absorb' the changes. Assuming that all trustees of all schemes and an employee from each sponsoring employer will have to familiarise themselves with the changes to the CN legislation, we assess that familiarisation costs could be:

Schemes

- 5,524 DB schemes, multiplied by
- 3.2 trustees per scheme on average⁵⁷, multiplied by
- 2 hours per trustee, and multiplied by
- the average hourly wage of a trustee of £28.50 per hour⁵⁸, gives
- A total familiarisation cost for schemes of just over £1 million⁵⁹.

⁵³ Government Response to the Consultation on Protecting Defined Benefit Pension Schemes- A Stronger Pensions Regulator. [Link](#)

⁵⁴ The covenant is the employer's legal obligation and financial ability to support their Defined Benefit (DB) scheme now and in the future- [Link](#)

⁵⁵ The covenant is the employer's legal obligation and financial ability to support their Defined Benefit (DB) scheme now and in the future- [Link](#)

⁵⁶ Government Response to the Consultation on Protecting Defined Benefit Pension Schemes- A Stronger Pensions Regulator. [Link](#)

⁵⁷ Trustee Landscape Quantitative Research 2015. Figure 3.2.3 Number of trustees by benefit type, page 14. [Link](#)

⁵⁸ The median hourly wage for a corporate manager or director is £22.44 in the Annual Survey of Hours and Earnings 2017 revised, Table 2.5 [Link](#). This is uplifted by 27% for overheads from the previous version of the Green Book no updated figure was available.

⁵⁹ = 5524*3.2*2*28.4988 = 1,007,535.

All trustees need to familiarise themselves with the changes to the CN legislation. We do not have a definitive figure for the total number of trustees that will be impacted so need to estimate this. For simplicity, we multiply the average number of trustees per scheme by the number of schemes to calculate the total number of trustees. The average number of trustees per DB scheme is 3.2, multiplying this by the number of DB schemes may produce an overestimate of the total number of trustees of DB schemes. This is because of the different type of trustees that there are, (lay and professional,) with many professional trustees offering their services to more than one scheme. Therefore, where the individual is a trustee for multiple schemes they would only be required to familiarise once with the proposed changes rather than for every scheme they are a trustee for. Therefore, this methodology will over-estimate the number of trustees who need to familiarise themselves with the changes. However, the pensions landscape is complex and there are other people in the pensions system who will also need to familiarise with new regulation, such as consultants and legal advisers, and so this higher figure captures other affected people. It would be a disproportionate cost to estimate this in more depth. Therefore, throughout this impact assessment if we refer to trustees we are including other impacted parties as well.

Sponsoring Employers

Sponsoring employers may also choose to familiarise themselves with the proposed changes as they themselves could be targets under the CN regime. For this we assume that there is one employee whose responsibility it is to read and transpose the legislation changes within the company.

- 14,000⁶⁰ DB sponsoring employers, multiplied by
- 1 employee to read through and familiarise, multiplied by
- 2 hours per employee, and multiplied by
- The average hourly wage of a professional of £25.40⁶¹ per hour, gives
- A total of approx. £0.7 million⁶².

For this estimate of familiarisation costs, we have assumed that both sponsoring employers and scheme trustees will familiarise with these changes. This is on the basis that both scheme trustees, sponsoring employers and those connected to sponsoring employers may be impacted by the proposed changes- as they may be 'targets'. Our total estimation for costs incurred by businesses during familiarisation is approximately £1.7 million.

5.2 Ongoing Costs

As discussed above the changes to the CN regime will be applicable to all DB sponsoring employers; however, they will only have an impact on a subset of DB schemes which are deemed to be in scope and where it is reasonable for TPR to take regulatory action.

5.2.1 Ongoing costs with changes to the CN Framework

The proposed changes will have an impact on business if they result in:

- a) A change in the volume of CNs or
- b) A change in the average value of a CN.

⁶⁰ White paper- Page 3 [Link](#)

⁶¹ The median hourly wage for a professional is £20.00 in the Annual Survey of Hours and Earnings 2017 Revised. Table 2.5 [link](#). This is uprated by 27% for overheads per the previous version of the Green Book- no updated estimate is available.

⁶² = 14,000*1*2*25.40 = 711,200

Change in volume of CNs

CNs are only issued in a small number of cases, as evidenced by the fact that since 2004, when TPR was established, only 1 CN has been issued. There have been a number of cases where TPR has settled prior to issuing a CN. We do not believe that these changes will result in an increased number of CNs.

Change in average value of CNs

The amount that TPR can stipulate in a CN is limited by a cap. This cap amount is the value of the scheme's S75 deficit as calculated at the point of the act. The proposal to change the cap calculation date, so that the cap is calculated closer to the date of final determination may result in a different amount being requested under a CN. At the moment, the cap is calculated at the point of the act or failure to act, but the changes proposed here would mean that the cap is calculated closer to the point of determination. During this time the level of the deficit attributed to the act may increase or decrease and in turn could lead to a change in the cap on the amount that can be specified in a CN.

It is not yet known whether these changes will increase or reduce the amount of money that can be requested under a CN as the amount specified in a CN is dependent on each individual case. Whilst the cap might increase or decrease the maximum amount that can be specified in a CN, this cap is not necessarily the same as the amount specified in the CN, as TPR have to prove that it is reasonable to issue a CN for a specific sum depending on the circumstances of the case in question. However, the CN regime is a fault based mechanism, where the target has decided to act/failed to act knowing that it could have material detriment to the pension scheme. A CN is only issued in this case of wrongdoing and therefore any change in the value or volume of a CN would be treated like a fine and not a cost to business.

Any change in the value or volume of CNs would largely result in an offsetting future impact to the business. In DB schemes, employers bear the investment and longevity risk, and are required to provide members with their promised benefits. In other words, the contribution to the scheme would have to be made- it is just being brought forward because of the CN. Therefore, this should be expected to reduce the counterfactual contributions they would need to pay into the scheme in the future by the same magnitude. Although there would still be a residual impact due to time preference, any net impact would be expected to be considerably smaller than the gross impact.

Furthermore, the actual amount requested under a CN is a direct transfer from the target to the scheme. According to the HMT's Green Book 'Transfers pass purchasing power from one person to another and do not involve the consumption of resources. Transfers benefit the recipient and are a cost to the donor and therefore do not make society as a whole better or worse off⁶³'. The cost to the target here provides a benefit to the scheme, it does not involve any consumption of resources, and in turn is counted as a transfer. Therefore, this is excluded from the overall estimate of Net Present Social Value (NPSV).

6. Benefits to Business

We anticipate there could be a benefit to business arising from further clarity to the CN regime. We haven't quantified these benefits here as they will be case specific and dependent on a number of different factors required throughout the CN process.

7. Costs and Benefits to Government (Including TPR and PPF)

⁶³ HMT's Green Book 2018- page 40 [Link](#)

7.1 Costs and Benefits to TPR

We anticipate there to be both costs and savings to TPR resulting from the changes to the CN power. On the one hand TPR's staff will need to familiarise themselves with the changes. Additionally, following the changes to the CN regime, should there be an increase in the number of cases; this will also affect staff and time. However, TPR are also expected to benefit from the changes to the CN powers. It is expected that, due to the changes enabling increased efficiency and clarity of the CN regime, TPR are likely to experience fewer cases where they have to issue a CN as the pensions industry will have an increased understanding of the parameters of the legislation. This could also lead to fewer appeals, which again will increase TPR's efficiency. We broadly assess the impact on TPR to be neutral. It is also important to note that TPR is funded by the General levy placed on pension schemes. The Levy is excluded from business costs for the purposes of the Equivalent Annual Net Direct Cost to Business (EANDCB) or Business Impact Target (BIT).

7.2 Costs and Benefits to the PPF

We anticipate that there will be limited impact to the PPF as a result of these changes. However, it is expected that any impact will be marginal, given the small number of cases, and the fact that an insolvency event would have to occur for the PPF to be involved in the scheme.

8. Costs and Benefits to Members

There are no costs incurred by members as a result of these changes as the CN regime is not designed to cause action for scheme members.

However, as a result of clarifying and strengthening the existing CN regime, members may benefit from an increased security of their pension benefits and reassurance that the pension promise will be met. There are a number of factors which may contribute to the security of members benefits and as such, it is difficult to isolate how the proposed changes will have an impact in the future. It is therefore considered disproportionate to quantify the benefits here.

9. Wider Economic/Societal Impacts

As set out above, this measure is designed and anticipated to contribute to improving the security of DB scheme members' pension savings. This improved security may also improve public attitudes towards the pensions industry more generally, which may in turn act as an additional incentive to save. We haven't quantified these impacts because there are a number of factors which can/may influence public attitudes towards the pensions industry and as such it would be difficult to isolate the impact of these proposed changes.

10. Small and Micro Business Assessment (SaMBA)

The costs to business fall on pension schemes and providers. Small and micro business who sponsor DB schemes may be affected. However, accurately assessing the impact of the proposed changes on this group is difficult, as the size of pension scheme does not correspond to the size of the employer.

There is information in the Annual Survey of Hours and Earnings (ASHE) data set on the size of DB sponsoring employers with active members, which helps to provide an indication of the size of DB sponsoring employers. The table below shows the proportion of private sector and not for profit active DB members by employer size.

Table 2: Proportion of active DB members, by employer size⁶⁴

Size of Employers	Proportion of DB members ⁶⁵
0	0%
1-9	2%
10-49	10%
50-99	4%
100-499	14%
500-999	9%
1000+	61%
All sizes	100%

The above evidence shows that the majority of active DB members work in businesses with more than 50 employees. It is also important to note that this information only includes those who are contributing to a DB pension, so will exclude members who are in schemes closed for future accrual. There is no evidence around the size of DB sponsoring employers where schemes do not have active members.

CNs can be issued to targets, even if members are no longer actively contributing. However, considering that:

- the majority of active DB members work in businesses with more than 50 employees,
- the number of CNs that are likely to be issued by TPR is small, and,
- that we expect the familiarisation cost for the proposed measures will be small,

we do not believe that the proposed changes will have a disproportionate impact on small and micro businesses.

11. Monitoring and Evaluation

The Government will work with TPR and the industry in order to understand and review the impact of the revised legislation post-implementation.

TPR's implementation of the CN regime can take a number of years. Therefore, given that TPR will have some cases under the old regime, and some under the new regime once the legislation is commenced, it is anticipated that it might take a few years before the impact of the revised legislation materialises.

Additionally, the CN power works in conjunction with the Scheme Funding powers, and with the proposed new Sanctions. Therefore, monitoring and evaluation of the changes to the CN will also need to take into consideration behavioural changes as a result of changes to TPRs Scheme Funding and Sanctions powers. It will also be important to consider the impact of any external factors, such as economic downturns and other market forces, on the impact of the revised legislation.

Annex A: Proposed CN Measures

The Existing Legislation	The Problem	The Proposed Change	Impact on business
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⁶⁴ Source: DWP estimates derived from ONS Annual Survey of Hours and Earnings (GB)

⁶⁵ Figures are rounded to the nearest 1%

<p>Pensions legislation outlines a number of factors that TPR can consider when determining whether it is reasonable to issue a CN.</p>	<p>The current factors for assessing whether the imposition of the CN, of a particular amount, is reasonable do not specify that:</p> <ol style="list-style-type: none"> 1. The action or failure of a person in respect of notices and accompanying statements under section 69A of the Pension Act 2004 is one of the matters TPR can consider; or, 2. The actual or potential impact of the act or failure to act on the value of the scheme's assets or liabilities is one of the matters TPR can consider. 	<p>Amending the Reasonableness Test (S38(7)) to reflect that:</p> <ol style="list-style-type: none"> 1. The action or failure of a person in respect of notices and accompanying statements under section 69A of the Pension Act 2004 is one of the matters TPR can consider; and, 2. The actual or potential impact of the act or failure to act on the value of the scheme's assets or liabilities is one of the matters TPR can consider. 	<p>Yes- the factor relating to the actual or potential impact of the act or failure to act could increase/decrease the value of the CN.</p>
<p>Pensions Legislation outlines the circumstances TPR must take into account of when determining if a scheme has been detrimentally affected in a material way, meaning that pensioners are less likely to receive their full pensions.</p>	<p>The current circumstances for considering whether a scheme has been detrimentally affected do not reference the weakening of the employer covenant as being a valid circumstance for the Material Detriment Test to be met.</p>	<p>Adding two additional tests to work alongside the Material Detriment test in order to outline that the weakening of the employer covenant is a valid circumstance under which TPR can issue a CN.</p>	<p>N/A- adds to existing legislation and is not expected to incur any additional costs to business other than familiarisation.</p>
<p>Pensions Legislation outlines that the shortfall sum in relation to a scheme is to be estimated at the time of the act.</p> <p>This means that the Cap amount of a CN is to be set, or calculated, at the time of the act. This is referred to as the Cap Calculation Date.</p>	<p>Setting the Cap Calculation Date at the time of the act has proved problematic as deficits change over time. This means that, in cases where the CN process has extended over a number of years, for instance due to the appeals process, the deficit at the time of a CN being awarded may be substantially more or less than the deficit at the time of the act.</p>	<p>Changing the Cap Calculation Date so that it is closer to the date of the final determination.</p>	<p>Yes- will potentially increase or decrease the cap (maximum amount) that can be specified in a CN.</p>
<p>Pensions Legislation does not currently outline a time-frame for compliance with a CN.</p>	<p>With the introduction of the new Criminal Fine and Civil Penalty, a timeframe for compliance needs to be</p>	<p>Taking a power in legislation to require the Determination Panel (DP) to set a timeframe for compliance in the CN.</p>	<p>N/A- would expect CNs to be paid, if not schemes could come within the timeframe and be in scope of the</p>

	specified in the CN legislation.		proposed new Sanction regime.
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Estimated direct costs to business

	Volumes	Cost ⁶⁶	How often?	Assumptions
Scheme familiarisation	5,524 DB schemes	1,010,000	One-off	All trustees have to familiarise. It takes two hours to familiarise. Trustee hourly wage is £28.50.
Employer familiarisation	14,000 DB sponsoring employers	710,000	One-off	One employee familiarises. It takes two hours to familiarise. Hourly wage of an employee is £25.40
Total Familiarisation		1,720,000		

⁶⁶ Rounded to the nearest 10,000.

Annex C: The Pensions Regulator (TPR) powers—sanctions and fines

Enhancing the occupational pension schemes' sanctions regime.

The Pensions Regulator's (TPR's) existing sanctioning powers do not sufficiently deter occupational pension scheme sponsoring employers or scheme trustees from engaging in wrongdoing in relation to their pension scheme. The existing criminal offences target only a limited list of breaches; and existing financial penalty amounts are set so low as to only be an effective deterrent for low-level breaches rather than more serious ones.

Government intervention is intended to strengthen the existing sanctions regime by widening the scope of sanctions and increasing the maximum penalties available for not engaging appropriately with TPR or not complying with relevant legislation and regulations.

Creating a stronger and more comprehensive sanctions regime will support TPR across all of its functions and enable it to become 'clearer, quicker, tougher.' This is designed to reduce the potential for abuse and wrongdoing within the occupational pensions industry.

The intended effect of these proposals is to improve the security of members' pensions by (i) introducing additional deterrents in order to motivate sponsoring employers to comply with legislative and regulatory requirements, (ii) enabling TPR to react in a more efficient and proactive way when wrongdoing occurs, and (iii) appropriately punishing unscrupulous sponsoring employers.

1. Policy background – additional detail of the preferred option

The preferred option includes the following:

- Introducing three new criminal offences:
 - 1) Two offences for wilful or reckless behaviour in relation to a pension scheme - this will create a more comprehensive and cohesive criminal sanctions regime by creating two overarching offences capturing a wider range of serious avoidance behaviour; and
 - 2) One offence for failure to comply with a Contribution Notice (CN)⁶⁷- this is intended to strengthen TPR's CN power by introducing a proportionate deterrent, and helping trustees enforce CNs;
- Introducing a new civil penalty of up to a maximum of £1million to appropriately address more serious breaches; and,

⁶⁷ A Contribution Notice (CN) is a fault-based mechanism by which TPR issue a demand to pay a set amount of money where a person was party to an act, or failure to act, which had a particular main purpose to avoid a liability to the scheme or which was materially detrimental to scheme members.

- Extending the list of duties and requirements which attract a civil sanction when breached.

More detail is set out in Table 1 below. A number of the offences listed are already in law and we intend only to change the fining power applicable, i.e. there will be no changes in the requirements, but a different sanctioning power will apply where the requirements are not met as a result of ‘wrongdoing’. In other cases, the existing requirements have been amended or new offences are being introduced, in those cases they are assessed either in Regulatory Impact Assessments (RIAs)⁶⁸ or within this summary bill impact assessment. The subject of this section is just sanction and fines.

Table 1. Summary of the proposed changes.

Criminal Offence	Offence	Target
Avoidance of employer debt	Criminal offence: up to 7 years imprisonment and/or unlimited fine	Any Person
Conduct risking accrued scheme benefits	Criminal offence: up to 7 years imprisonment and/or unlimited fine	Any Person
Failure to comply with a Contribution Notice	Criminal offence: Unlimited fine	Sponsoring employers and others associated or connected
Financial Penalty	Penalty	Target
Avoidance of employer debt	New civil penalty: up to a maximum of £1 million	Any Person
Conduct risking accrued scheme benefits	New civil penalty: up to a maximum of £1 million	Any Person
Failure to comply with a Contribution Notice	New civil penalty: up to a maximum of £1 million	Sponsoring employers and others associated or connected
Failure to comply with the notifiable events framework	New civil penalty: up to a maximum of £1 million	Sponsoring employers and trustees
Failure to comply with the requirements for a Declaration of Intent	New civil penalty: up to a maximum of £1 million	Sponsoring employers and others associated or connected
Knowingly or recklessly providing false information to TPR	New civil penalty: up to a maximum of £1 million Please note: A criminal offence already exists for this offence.	Any person who is required to provide information to TPR, as per the legislation.
Knowingly or recklessly providing false information or failing to	New civil penalty: up to a maximum of £1 million	Any person who is required to provide information to

⁶⁸ These are in other annexes within this summary enactment IA.

provide required information to Trustees		Trustees, as per the legislation.
Amending Existing Penalties	New Penalty	Target
Non-compliance with information requests (including inspections and interviews) or delays in providing information	Fixed and escalating civil penalty. The Government will develop the levels of fines as part of its secondary legislation package.	Any person targeted by TPR under section 72 to 75 of the Pensions Act 2004
Failure to provide a Chair's Statement, failure to provide on time or providing a poor quality statement	The civil penalty under the existing section 10 of the Pensions Act 1995, and the criminal offence under the existing section 80 of the Pensions Act 2004.	Trustees

Source: DWP, 'Protecting Defined Benefits Pensions Schemes- A Stronger Regulator' Consultation response⁶⁹.

2. Evidence behind the rationale for intervention

The Department undertook a comprehensive review - including industry consultation and working closely with the TPR - of the condition of Defined Benefit (DB) occupational pensions, and published a White Paper 'Protecting defined benefit pensions' in March 2018⁷⁰. The paper concluded that 'although most employers want to do the right thing, we need to guard against the small minority of employers who may be content to put it at risk'.

The Department sought feedback on the proposed new sanctions as part of the White paper consultation document 'Protecting Defined Benefits Pensions Schemes - A Stronger Regulator' in June 2018. The consultation response attracted strong engagement from the Pension's community with over 71 responses received from a range of respondents, including pension professionals, employers, representative bodies and trustees. Respondents to the consultation on balance, supported the changes in the system of sanctions. A number of respondents commented that a practical and proportionate regime could be an effective deterrent and should not impact on properly run businesses.

Behavioural evidence/studies tend to suggest that proportionate and well-targeted sanctions and fines do help deter wrongdoing. For example, Hasehuln et al (University of California, Berkley)⁷¹ conclude that 'personal experience with a fine can motivate long-term behaviour'. Behavioural evidence is discussed in more detail in the White Paper.

3. Scope - numbers potentially affected

⁶⁹ Government Response to the Consultation on Protecting Defined Benefit Pension Schemes- A Stronger Pensions Regulator [Link](#) – page 24-25

⁷⁰ [Link](#)

⁷¹ [Link](#)

The proposed changes are primarily designed for and will be applicable to all funded private sector Defined Benefit (DB) schemes. In some cases, such as ‘non-compliance with information requests’ the proposed changes will also have an impact on occupational Defined Contribution (DC) schemes. However, only a small subset will be affected as the majority comply with the requirements and will not be affected. There are 5,524 DB schemes⁷², with approximately 14,000 sponsoring employers in total⁷³. There are 30,590⁷⁴ occupational DC schemes with more than two members.

3.1 Extending the sanctions regime

Those impacted here are not only those who are sanctioned, but also those who are deterred from wrongdoing. We assess business cost to be nil on the basis that monetary impacts associated with deterred wrongdoing, and fines issued where wrongdoing occurs, are not treated as a cost. However, to illustrate potential scale of impact more generally we present the following illustration of the numbers of cases anticipated to be sanctioned / fined. Business impacts are discussed in more detail further down.

3.2 Provisional ex-ante estimates or assumptions of number of cases sanctioned / fined – for illustrative purposes

By looking at the numbers of sanctions in other business areas, we anticipate the number of civil sanctions issued to vary between 5 and 50 per annum. The lower bound estimate is based on the 5 CN cases at the investigation stage and one at the warning notice stage as at December 2017⁷⁵. The upper bound estimate is arrived at by using the total number of financial penalties imposed by the FCA in the years 2014/15, 2015/16 and 2016/17. This figure has ranged between 15 and 43 per annum over this period⁷⁶. This approximation has been rounded to 50 per annum to be prudent in the context of high uncertainty.

We anticipate that the number of criminal convictions could vary between 0 and 5 per annum. The upper bound of this is based on the 5 CN cases at the investigation stage as at December 2017. Both the wilful and reckless behaviour in relation to a pension scheme and failing to comply with a contribution notice are related to CNs that have been issued. We arbitrarily assume 0 to 2 are expected to lead to custodial sentences and 0 to 3 are expected to lead to substantial fines.

4. Business impacts

4.1 Costs to Business of extending the sanctions regime.

4.1.1 Familiarisation and implementation cost.

⁷² The Purple Book 2018- [Link](#), page 10

⁷³ Protecting Defined Benefit Pension Schemes- [Link](#) , page 3.

⁷⁴ DC Trust 2019- [Link](#), Table 1.18

⁷⁵ TPR management information referenced in Protecting Defined Benefit Pension Schemes- [Link](#), page 49.

⁷⁶ FCA Enforcement annual performance account 2016/17- [Link](#), figure 2.2 page 5

The subject of this assessment is sanctions and not changes to the requirements of how pension schemes have to be run. Schemes have to be familiar with the requirements and what defines wrongdoing in the baseline, and comply with them, no matter what fine or sanction is associated with them. On this basis, we assess that changes in sanctions and fines per se does not result in any additional familiarisation cost.

In addition, TPR intend to update its compliance and enforcement policies for occupational pension schemes once the legislation comes into force so that any changes are well communicated.

4.1.2 Ongoing cost

Ongoing cost to business is assessed to be nil. This is primarily on the basis that sanctions or fines, which result from wrongdoing, are not to be treated as a cost. Equally, not issuing a fine (where issuing it is reasonable) is not treated as a benefit to business due to the same argument – not preventing and / or punishing wrongdoing is not treated as a benefit from societal value judgement point of view.

4.1.3 Other/wider business cost

We do not anticipate that targeted and proportionate sanctions applied to those engaged in 'wrongdoing', who are a small minority, will make any legitimate business / business activities less attractive to potential legitimate investors or business employees.

4.1.4 Sensitivity analysis

There may be some costs to business arising where a sanction or fine is applied by TPR but later successfully appealed. The challenge process itself carries a cost, and where a sanction is applied incorrectly the associated adverse monetary implications on business are to be treated as a cost. The legal system, in general, allows for compensation where punishment has been applied incorrectly. However, we do not claim that that necessarily reduces any damages to zero; but we anticipate any net costs associated with sanctions being (ultimately) incorrectly applied as negligible. The Department for Work and Pensions will be liaising with the Regulator and pensions industry and monitoring any practical developments following the introduction of the new sanctions and fines regime.

4.2 Business benefits

There may be an indirect benefit for business if as a result of the changes in the system of sanctions some businesses are deterred from wrongdoing and in turn helps to create more of a level playing field – i.e. those unlawfully compromising their DB scheme are not gaining comparative advantage over those meeting all requirements.

5. Costs and Benefits to scheme members

There will be no costs incurred for scheme members as they will not need to do anything– i.e. no familiarisation, implementation, or any ongoing costs for them.

The enhanced sanctions regime is expected, in some cases, to deter 'wrongdoing', which would otherwise put the scheme and its members' pensions at risk – hence a potential benefit to members. In all situations however the fine will still have to be paid. This could weaken the position of the employer and in some cases result in damage to the employer covenant. This could increase the chances of these schemes entering the PPF, which could result in lower benefits received by members. However, as the number of cases is expected to be relatively low and this is dependent on a number of additional factors it is not clear whether this would be the case. Due to the uncertainty surrounding this and the level of benefits that members are entitled to we consider this disproportionate to quantify.

6. Costs and Benefits to Government/TPR

6.1 TPR

TPR is anticipated to incur both gross costs and gross benefits. Financial penalties will be dealt with directly by TPR; and in relation to criminal offences, TPR will form the prosecution. As a result, TPR will incur a familiarisation cost in the form of training staff on the new system of sanctions, and ongoing monitoring costs because of resources/experts who will be needed to consider, prove, decide and communicate sanctions. On the other hand, the enhanced sanctions regime is expected, at least to some extent, to deter wrongdoing and improve compliance with TPR – which would result in savings to TPR. Net impact will depend on several factors, including how the deterrence effect plays out, which is not possible to quantify ex ante with any certainty.

There is a possibility that introducing the new system of sanctions may lead to over compliance. For example, businesses notifying events when there is not strictly a need, which could increase TPR's caseload. However, if schemes and employers read the requirements and are familiar with what is expected of them there is no reason we can assume that they will over comply with the regulations.

TPR is primarily funded by the Pensions Schemes Levy, which is collected from UK pension schemes by the Pensions Regulator (TPR) on behalf of the Department for Work and Pensions (DWP). This levy (as all other levies) is not a regulatory provision and thus does need to be reported on for the Business Impact Target (BIT).

6.2 HM Prison Service

There may be minor costs incurred by HM Prison Service, because of the new criminal offences and in turn custodial sentences for the two new offences that capture wilful or reckless behaviour in relation to a pension scheme.

A study by Ernst & Young (EY) found that on average company directors face sentences of four years or more⁷⁷. Using this as a proxy we assume that the average sentence for this offence will be 4.5 years. It is assumed that prisoners will serve half their sentences (2.25 years) before being released on parole. The cost per prison place per annum is estimated to be £26,274⁷⁸. Assuming there is one conviction per year and the average duration in prison is 2.25 years, after year one the number in prison will accumulate to two offenders in prison per year. As a result, it is estimated that the cost incurred to HM Prison Service is £26,274 in the first year and then £52,548 per annum thereafter.

7. Any other / wider economic or societal impact

There are wider benefits expected as a result of the new system of sanctions. It may lead to an increase in public confidence in (the security of) pension savings in general. Also, more proportionate sanctions and fines are anticipated to improve fairness.


The new system of penalties increases the individual liability and therefore could make it more difficult for schemes to recruit member nominated trustees. We do not treat this as a cost, if trustees comply with the requirements then the new system of penalties should not affect their decision to become a trustee.

⁷⁷ Assumption based on EY study which found that on average company directors face prison sentences of four years or more.

[Link](#)

⁷⁸ [Link](#)

Annex D: The Pensions Regulator (TPR) Declarations of Intent

 Department for Work & Pensions		Impact Assessment (Bill Final)	
Title of measure		Declaration of Intent	
Lead Department/Agency		DWP	
Planned coming into force /implementation date		TBC	
Origin (Domestic/EU/Regulator)		Domestic	
Policy lead		Mary Collins	
Lead analyst		Eleanor King	
Departmental Assessment		Qualifying Regulatory Provision	
Total Net Present Social Value (over 10year period) (2016 prices): Not quantified at this stage.	Equivalent Annual Net Direct Cost to Business (EANDCB)(over 10 year period in 2016 prices): Not quantified at this stage.	Business Impact Status: Not quantified	
Summary - Intervention and impacts			
<p>Policy Background – Issue – Rationale for Intervention – Intended Effects</p> <p>The Department’s White Paper ‘Protecting Defined Benefit Pensions’⁷⁹ identified a need for stronger proportionate measures to safeguard members’ pensions and the Pension Protection Fund (PPF) from certain corporate transactions undertaken by a small minority of employers that may put their Defined Benefit (DB) pension scheme at risk. The rationale for intervention is to reduce the risk to DB pensions schemes by ensuring corporate planners⁸⁰ give due consideration to the impact on the pension scheme and enable trustees and the Pensions Regulator (TPR) to take action where necessary to protect the pension scheme.</p> <p>The intention is to require corporate planners to make a Declaration of Intent setting out information in the form of a statement about the transactions and how any detriment to the pension scheme is to be mitigated. This would be issued to TPR and copied to the trustees of the pension scheme. The Declaration of Intent would be required in respect of specific employer-related notifiable events⁸¹. It is intended to capture transactions with the highest risk to DB pension schemes. The information in the Declaration of Intent will enable trustees and TPR to take action where they believe the mitigations are insufficient.</p>			
<p>Brief description of viable policy options considered (including alternatives to regulation)</p> <p>Option 0- Do nothing: no change to awareness of trustees and TPR of risk to pensions and therefore stated intentions not met.</p> <p>Option 1- Legislate for mandatory clearance: the Government’s Green Paper⁸² explored the possibility of designing a system of mandatory clearance by TPR of certain corporate transactions, but the majority of respondents were unsure this could be achieved without significant detriment to legitimate business activity. This option was therefore not considered in the Government subsequent consultation on <i>A Stronger Pensions Regulator</i>⁸³.</p>			

⁷⁹ Protecting Defined Benefit Pension Schemes- [Link](#)

⁸⁰ Those with responsible for corporate transactions - usually the sponsoring employer of the pension scheme or the parent company of the sponsoring employer

⁸¹ events that employers must notify to TPR

⁸² [Defined benefit pension schemes: security and sustainability - GOV.UK](#)

⁸³ <https://www.gov.uk/government/consultations/protecting-defined-benefit-pension-schemes-a-stronger-pensions-regulator>

Option 2- Legislate to introduce a Declaration of Intent: the preferred option - will be less cumbersome than mandatory clearance and meet the stated intention. A legislative option is necessary, as there are no existing primary powers which could be used to require a Declaration of Intent from corporate planners to the trustees of the DB pension scheme.

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

Businesses will be required to familiarise with the new legislation to require a Declaration of Intent (DoI). This legislation affects all sponsoring employers/parent companies with DB pension schemes who are undertaking specified corporate transactions. The costs to these employers include:

1. Familiarisation costs - which we assume, are incurred by all 14,000 sponsoring employers of DB pension schemes. This is estimated to be approximately £0.7m.
2. Ongoing costs - once secondary legislation is introduced those sponsoring employers/parent companies who choose to undertake such transactions will incur costs of producing the Declaration of Intent. We have provided indicative figures below for what we expect the cost of complying could be. At this stage, we have only been able to quantify some of the potential costs- of what we have quantified, our indicative figures estimate the cost could be just under £1 million per year.

TPR will also experience an increase in their operational costs as a result of them having to review and respond to Declarations of Intent. These have not been quantified at this stage because the detail of the requirements will be set out (and assessed) through subsequent secondary legislation.

Introduction of the Declaration of Intent is intended to help protect DB pension scheme members' benefits and in turn reduce the likelihood that a scheme will enter the PPF, also reducing costs to the PPF (and potentially benefitting businesses indirectly through a reduction in the pension protection levy). In addition, businesses may benefit from increased clarity on when to consider impacts on the scheme. TPR may also benefit from efficiency savings as a result of being told earlier when businesses are planning on completing certain corporate transactions.

Departmental Policy signoff (SCS): Joanne Gibson	Date: 28/02/2019
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Economist signoff (senior analyst): Joy Thompson 28/02/2019	Date:
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Better Regulation Unit signoff: Prabhavati Mistry	Date: 28/02/2019
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Additional detail – policy, analysis, and impacts

Policy options considered, including alternatives to regulation

1. Policy objective

The policy objective is to guard against risks to the DB pension scheme and the Pension Protection Fund (PPF) arising from corporate decisions, which neither trustees nor TPR can control.

2. Description of options considered

Option 0: Do nothing

A non-legislative approach would mean that there was no requirement for those responsible for corporate transactions to engage with trustees and set out how they propose to mitigate any detrimental impact caused by the proposed transaction on the DB pension scheme. This

may result in the trustees and TPR being unaware of the risk to the pension scheme as a result of the transaction and place members' pensions at risk. Also this option would not deliver the Department's White Paper⁸⁴ commitment to put in place a requirement for a Declaration of Intent. It was therefore decided to pursue a legislative approach.

Option 1: Legislate to introduce a targeted mandatory clearance for 'specific' corporate transactions.

The majority of respondents to the Green Paper consultation question about the introduction of a requirement for mandatory clearance from TPR agreed this would deter or delay the sponsor's legitimate business transactions. While some elements of this option are being taken forward, the intention is to provide an approach that is less cumbersome for sponsor employers by supplementing the existing Notifiable Events Framework⁸⁵ with the proposed Declaration of Intent.

Option 2: (the preferred option) – Legislate to introduce a Declaration of Intent (DoI).

The Government consultation, 'Protecting Defined Benefit Pension Schemes – A Strong Pensions Regulator'⁸⁶ made the case for introducing a Declaration of Intent as a more proportionate and less burdensome measure than applying a mandatory clearance regime to all sponsoring employers of DB pension schemes. Respondents were fairly evenly divided on the proposal for the introduction of a Declaration of Intent.

This option is to put in place a requirement for sponsoring employers or parent companies of DB pension schemes to make a Declaration of Intent to TPR and copy this to the trustees of the pension scheme, setting out information on specified corporate transactions and how any detriment to the pension scheme is to be mitigated. Sponsoring employers or parent companies will also be required to engage with trustees to assess the impact of a proposed transaction on the pension scheme. This will enable trustees to engage more effectively with TPR. It will also enable TPR to signpost those responsible for corporate transactions to the clearance process⁸⁷ where appropriate.

Primary legislation will set out the purpose of the Declaration of Intent, who is responsible for completing it and provide for regulations to set out the content and any further detail, including the corporate transactions that would trigger a requirement for a Declaration of Intent.

The specific corporate transactions that would trigger a Declaration of Intent are to be defined as employer-related notifiable events in secondary legislation. Taking account of the responses to the consultation, these will initially be the:

- a) Sale of controlling interest in a scheme employer (an existing notifiable event set out in regulation 2(2)(f) of The Pensions Regulator (Notifiable Events) Regulations 2005);
- b) Sale of the business or assets of a sponsoring employer (new notifiable event to be introduced in secondary legislation); and
- c) Granting of security in priority to the scheme on a debt to give it priority over debt to the scheme (new notifiable event to be introduced in secondary legislation).

Primary legislation will also set out the penalty for non-compliance with the Notifiable Events Framework and the requirement for a Declaration of Intent. It is already mandatory in the

⁸⁴ Protecting Defined Benefit Pension Schemes- [Link](#)

⁸⁵ Notifiable Events Framework consists of: Regulations detailing notifiable events; Directions that TPR may issue to limit the circumstances in which notification is required and a Code of Practice.

⁸⁶ Protecting Defined Benefit Pension Schemes- White Paper (March 2018) [Link](#)

⁸⁷ Voluntary system designed to give employers comfort that TPR will not use its anti-avoidance powers

baseline scenario to comply with the Notifiable Events Framework- the impact of applying a civil penalty to this existing requirement is assessed in a separate Impact Assessment⁸⁸.

3. Evidence behind the rationale for intervention

The Pensions Protection Fund (PPF) was established in 2005 to pay compensation to members of eligible DB pension schemes where the sponsoring employer becomes insolvent. In such circumstances, when schemes do not have sufficient assets to secure pension benefits at the compensation level or above, the PPF, which is funded (in part) by a pension protection levy on all eligible DB pension schemes, steps in⁸⁹.

Claims on the PPF in the year to 31 March 2018 neared £1.2 billion, the highest in any year since the PPF's inception⁹⁰. Companies become insolvent for a wide range of reasons (poor financial management, inadequate resources, competition), which may lead to an underfunded DB pension scheme entering the PPF and members of the pension scheme being entitled to reduced levels of pensions. Not all corporate transactions lead to insolvency- in the year 2017/18 TPR were notified of 1,139 notifiable events⁹¹ and according to the PPF's annual report 46 schemes transferred to the PPF in the year 2017/18⁹². As such, we presume the proportion of corporate transactions that do lead to insolvency is very small. Some transactions will be agreed to ensure the business can continue or grow, perhaps in a different form. Intervention is not intended to stop corporate transactions; it is however intended to ensure decision makers also consider the impact of the transaction on the pension scheme. As such, it is anticipated to reduce the likelihood that a scheme will enter the PPF in the future, and to protect the pension promised to members of DB pension schemes.

The Department's White Paper stated that 'The government is clear that where sponsoring employers are able to meet their pension promises; they should and must continue to do so without undue delay or evasion'⁹³.

4. Impacts on affected parties (of preferred option)

As set out above, there are a number of uncertainties at this stage, as secondary legislation following consultation will provide details of the content of the policy. The discussion below provides a provisional indication of potential impacts at this stage. The EANDCB has not been quantified at this stage, further costs/benefits are to be assessed at the secondary legislation.

4.1.1 Key Assumptions/Sensitivity/Risks

The number of Notifiable Events is constant at 1,139

- There is not a set number of notifiable events and it can vary year on year- shown by table 1 below. The number directly depends on the number of Notifiable Events that both employers and schemes are involved in.
- The number of Notifiable events has increased, on average, by 17% per year over the period. There is no definite explanation as to why there has been an increase over this time period and there are a number of reasons why it could vary in the future. For

⁸⁸ Note: the impact of this civil fine is assessed in the summary enactment IA.

⁸⁹ White Paper: [Link](#), page 5.

⁹⁰ The Purple Book: [Link](#), page 55.

⁹¹ FOI on Notifiable events [Link](#)

⁹² Pension Protection Fund Annual Reports and Accounts 2017-18 [Link](#), page 24.

⁹³ White Paper: [Link](#) page 10.

example, it could be linked to the business cycle, when the economy is booming then it can be expected that businesses will be more likely to complete corporate transactions and vice a versa complete fewer in an economic downturn.

- Due to uncertainty around whether this figure may increase/decrease or remain constant in future we assume in our central scenario that this will remain constant. Sensitivity analysis around this assumption is conducted in section 8.2.1 below.

25% of all Notifiable events would have triggered a Declaration of Intent.

- The key assumption is that 25% of all notifiable events would have triggered a Declaration of Intent. We have conducted sensitivity analysis around this estimate- the upper bound of this is 35% and lower bound is 15%. This is shown in section 8.

Ongoing Cost assumptions

For indicative figures on the ongoing cost of complying with the Declaration of Intent, a number of assumption have been made:

- It will take a week of a senior corporate planners work to assess.
- It will take two days of all the trustees of the scheme's trustee board to consider.
- The hourly rate of the senior corporate planner is double the median hourly wage of a professional- £50.80⁹⁴.
- The hourly rate of a trustee is £28.50 per hour⁹⁵.

The content of the Declaration of Intent is to be set in secondary legislation, at this stage we do not know this content and as such have not been able to monetise the full impact of this measure. Further assessment of the key assumptions/sensitivities/risks will be determined at the secondary legislation stage. The Department will further assess the impact of this measure at the secondary legislation stage.

The EANDCB is not quantified at this stage, costs included here are indicative figures.

Impacts (Costs and Benefits) on Businesses

4.1.2 Costs of complying with the Declaration of Intent requirement - familiarisation and ongoing.

The costs of producing the Declaration of Intent will directly depend on: (i) the content required, and (ii) the corporate events/transactions and circumstances (e.g. triggers like a certain funding level) under which it is required. This content will be set out in secondary legislation.

Familiarisation costs.

There are 5,524 private sector DB schemes⁹⁶ sponsored by approximately 14,000 businesses, in total⁹⁷. We expect that all sponsoring businesses will have to be (at least broadly) familiar with the new Declaration of Intent requirement. Resources invested (time etc.) in

⁹⁴ Median hourly wages for a professional is £20.00- Taken from the annual survey of earnings and hours, 2017 revised Professional occupations Table 2.5a. [link](#). Multiplied by two and then uprated by 27% for overheads according to the archived green book.

⁹⁵ The median hourly wage for a corporate manager or director is £22.44 in the Annual Survey of Hours and Earnings 2017 revised, Table 2.5. This is uplifted by 27% for overheads from the archived Green Book. [Link](#)

⁹⁶ The Purple Book 2018: [Link](#), page 10.

⁹⁷ White Paper: [Link](#) page 3.

familiarisation will depend on the exact detail and on guidance made available by the TPR. However, we do not expect the definitions/parameters to be overly complex because the transactions in scope are ‘usual’ business’ transactions like sales or borrowing. As an indication of familiarisation costs, we arbitrarily assume that it will take one professional from each of the DB sponsoring businesses spending 2 hours familiarising with the requirements. Assuming the average wage (incl. non-wage cost) of a professional of £25.40⁹⁸ per hour a total one-off familiarisation cost would be about £0.71 million (14,000 businesses * one professional * 2 hours * £25.40 per hour).

Ongoing costs

The requirement for a Declaration of Intent will directly affect a subset of the DB sponsoring employers – those that are about to undertake one or more of the ‘specific’ (in the context of Declaration of Intent) corporate transactions. The existing notifiable events regime may give a very broad proxy for the potential scale of Declaration of Intent. The current Notifiable Event Framework states that if an event occurs, this must be notified in writing to TPR as soon as reasonably practicable⁹⁹. The Notifiable Events framework is supported by a Code of Practice¹⁰⁰ and is a mandatory framework for schemes and their sponsoring employers. However, there are some exceptions where TPR do not need to be notified of certain events¹⁰¹. The table below shows the number of notifiable events that TPR were notified of in the past five financial years.

Table 1: Notifiable Events data between 2013 and 2018¹⁰²

Financial Year	No. of Notifiable Events	% Change from previous year
2013-14	625	-
2014-15	720	15%
2015-16	668	-7%
2016-17	890	33%
2017-18	1,139	28%

The above table shows that the number of notifiable events is not constant over time and is also likely to vary in the future. The number of notifiable events is directly dependent on the number of events that both schemes and employers undertake. This results in the varying numbers recorded over time. Due to the uncertainty surrounding whether this number will increase/decrease/remain the same we have chosen to use the 1,139 figure from 2017-18 as our estimate for the future number of notifiable events. Sensitivity analysis around this estimate, if it were to increase year on year, is conducted below in section 8.

The Declaration of Intent will be a separate trigger based on the notifiable events framework. The notifiable events framework is quite wide and covers both scheme and employer-related events. The Declaration of Intent will focus on specific corporate transactions that have

⁹⁸ Median hourly wages for a professional is £20.00- Taken from the annual survey of earnings and hours, 2017 revised Professional occupations Table 2.5a. [link](#). Uprated by 27% for overheads according to the archived green book.

⁹⁹ For more information and details on the current notifiable events framework see: [link](#).

¹⁰⁰ Notifiable Events Code of Practice [Link](#)

¹⁰¹ For more information and details on the current notifiable events framework see: [link](#)

¹⁰² FOI on Notifiable events [Link](#)

triggered employer-related events, and, as such, not all of the notifiable events will trigger a Declaration of Intent. The consultation response proposes 3 employer-related notifiable events that will trigger a Declaration of Intent ¹⁰³.

There isn't information available on the full breakdown on the event type that have been notified within the notifiable events framework. As such we make the simplifying assumption that the 1,139 notifiable events are distributed evenly by the type of event-, this estimates that 25% of Notifiable Events cases will fall under the requirement of a Declaration of Intent. This is an illustrative assumption, based on the number of current notifiable events in the framework (13¹⁰⁴), the Government's proposed changes to the Notifiable Events framework which will include two additional events and one being removed¹⁰⁵ and that 3 events are proposed to trigger a Declaration of Intent ¹⁰⁶. On this basis we indicatively estimate that there will be approximately 285 cases per annum in which a Declaration of Intent will be required.

Where a need for Declaration of Intent is triggered the business is likely to incur the following costs:

- The cost of preparing the Declaration of Intent.
- The cost of assessing the effect of the transaction or event on the pension scheme;
- The cost of putting mitigations in place;
- There may be further impacts on the business if TPR deem the mitigations are not acceptable, which could result in the sponsor being invited to submit a clearance application.

The current DB Code of Practice refers to a 'working collaboratively' principle. According to TPR's research¹⁰⁷, 98% of sponsoring employers of DB schemes stated they engage with trustees prior to making decisions. This information was gathered from a small population of employers with DB schemes, it does not specifically relate to the requirements of the Declaration of Intent. It does however help to provide an indication that the majority of schemes/employers already consult each other prior to corporate decision making, therefore this cost is in the baseline rather than additional as a result.

Broadly speaking, there may be three types of costs associated with the three implications listed above:

1. Costs of preparing the Declaration of Intent including assessing the impacts of the corporate transaction with trustees;
2. Costs of changing the corporate transaction and
3. Costs of delaying the corporate transaction.

1. Costs of preparing the Declaration of Intent including assessing the impacts of the corporate transaction with trustees.

¹⁰³ Consultation response document will add link when published.

¹⁰⁴ List of current notifiable events in the framework- [link](#)

¹⁰⁵ Government's response to the Consultation on Protecting Defined Benefit Pension Schemes- A Stronger Pensions Regulator. [Link](#), page 9

¹⁰⁶ = $(13+2-1)/3 = 0.21$ (rounded to 25% due to uncertainty).

¹⁰⁷ DB trust-based pension schemes research: summary report 2018 [Link](#)

Secondary legislation will set out the details of requirements on

- Businesses to explain the nature of the planned transaction;
- Confirm that whoever is responsible for the planning of the corporate transaction has consulted on its terms with the trustees
- Confirm the trustees' agreement (or otherwise) to the planned transaction;
- Explain any potential detriment to the scheme (if any) and how this is to be mitigated.

This type of cost arises from the corporate planner having to assess impacts of the proposed transaction; and from having to discuss with trustees and report to the trustees and TPR. The costs are anticipated to vary by case depending on the type of transaction and other circumstances. In complex cases, the corporate planner may want to hire external consultants to assess the impact. In simple cases where it is straightforward to assess a limited amount of time spent by the corporate planner may be sufficient.

As stated previously, the content and detail of the Declaration of Intent will be set out in secondary legislation- currently there is no indication of how long this process will be for employers and trustees. At this stage, we assume for illustrative purposes that on average it may take 1 week of one senior corporate planner's work to assess, and 2 days of all trustees of the scheme's trustee board to consider. We also assume that the hourly rate of the senior corporate planner is £50.80¹⁰⁸ (double the average rate of a professional used above), and the average rate of a trustee is £28.50¹⁰⁹ per hour. There are 3.2¹¹⁰ trustees per scheme on average. On this basis an illustrative annual cost estimate would be just under £1 million ((3.2 trustees * 8 hours per day * 2 days * £28.50 per hour) + (1 senior corporate planner * 8 hours per day * 5 days * £50.80pa)) * 285 cases pa.

Sensitivity analysis around this estimation has been conducted below in section 11.

2. Costs of changing the corporate transaction.

Where detrimental impacts on the scheme are identified the business may need to alter the transaction in order to mitigate the impacts. In some cases, this may potentially result in some of the business gains foregone. However, there is already a requirement (in the baseline) not to compromise the pensions scheme. The preferred option does not alter the fundamental requirements, it just alters the way implications are considered, communicated, and risks identified and mitigated. Formalising this requirement and being more prescriptive is likely to incur some additional cost to businesses. Although, quantifying this would be disproportionate as it is likely to be very case specific.

3. Costs of delaying the corporate transaction.

Where assessing whether a proposed transaction will have any detrimental impacts on the pension scheme delays the transaction but is eventually assessed to be non-detrimental, there would be a cost to the business in the form of delayed benefits from the transaction. This will be case specific and is disproportionate to quantify. However, at least in theory there may be

¹⁰⁸ The median hourly wage for a professional is £20.00 in the Annual Survey of Hours and Earnings 2017 revised, Table 2.5, this is uplifted by 27% for overheads from the archived Green Book. [Link](#)

¹⁰⁹ The median hourly wage for a corporate manager or director is £22.44 in the Annual Survey of Hours and Earnings 2017 revised, Table 2.5. This is uplifted by 27% for overheads from the archived Green Book. [Link](#)

¹¹⁰ Figure 3.2.3 Number of trustees by benefit type [Link](#)

some significant costs in some cases. In general, corporate transactions like Mergers and Acquisitions (M&As) are expected to help improving and expanding businesses, by e.g. creating economies of scale (e.g. sharing the same distribution chain or admin functions), expanding product range, acquiring and sharing know-how, etc. Willis Towers Watson (WTW) research, run in partnership with Cass Business School, found that 'acquirers continue to achieve excellent financial performance, continuing the unbroken run of fourteen consecutive quarters of outperformance, which saw deal-makers returning a market outperformance of 5.8 percentage points (pp)'¹¹¹. However, we do not have evidence on the post-acquisition performance of UK businesses with DB schemes.

4.1.3 Benefits to Businesses

There could be a potential indirect benefit to businesses through the PPF levy. If introducing the Declaration of Intent reduces the risk of schemes entering the PPF, the pressure on the PPF will also be reduced. In turn, this means the pressure on the PPF levy would be reduced as well. Given that the PPF levy is paid by all eligible schemes, all of them will benefit through this. However, it is important to note that this will be at least partially or fully offset by additional costs on TPR levy, as such quantifying it would be disproportionate.

Overall, we do expect this measure to have a net cost to business. However, the legislation is intended to result in benefits to scheme members as a result of businesses being required to consider the impact of corporate transactions on the scheme before completion, and hence reducing future scheme failures that would otherwise occur.

5. Costs and Benefits to Government (Including TPR and PPF)

5.1 Impacts on TPR

When the content and requirements for the Declaration of Intent are introduced, TPR will incur costs through both familiarisation and implementation which will be assessed at the secondary legislation stage.

Based on the above estimate, that there will be 285 cases per annum requiring a Declaration of Intent ¹¹², we can expect that there will be a corresponding increase in TPR's operational costs in terms of reviewing and responding to the Declaration of Intent. On the other hand, TPR may see efficiency savings given that they will be provided with the information they need through a Declaration of Intent, this potentially may result in them being able to intervene earlier if needed and as a result provide efficiency savings.

We anticipate that there will be gross costs and gross benefits to TPR and we will aim to assess the net position at the secondary legislation stage. This may pose a potential indirect cost to business- in any case TPR is funded by the General Levy, which is excluded from EANDCB calculations.

5.2 Costs and Benefits to PPF

¹¹¹ Source: [Link](#)

¹¹² In section 4.1.2 Ongoing costs.

The costs and benefits incurred by the PPF will directly depend on: (i) the content required, and (ii) the corporate events/transactions and circumstances (e.g. triggers like a certain funding level) under which it is required. This content will be set out in secondary legislation.

It is expected that as a result of the Declaration of Intent, schemes should be at reduced risk of entering the PPF and as such, this will benefit the PPF- although quantifying this would be disproportionate.

6. Costs and Benefits to Scheme members

There will be no costs to members because:

- (i) They will not need to take any action (so no familiarisation, implementation, or other types of costs on them).
- (ii) The measure is designed to improve the security of their pensions and not compromise it, and
- (iii) In DB schemes, any additional costs incurred by sponsoring businesses cannot be passed on to their scheme members because DB is a pre-defined promise.

The measure is designed and anticipated to contribute to enhancing the security of members' pensions – in other words, improving the probability that they will have the pensions promised to them paid in full. There are about 10.4 million members¹¹³ with an average annual pension estimated to be around £8,000¹¹⁴. It is very complex to isolate the impacts of this measure on any future changes in the member security, and so quantifying this would be disproportionate, albeit we will review this position for the secondary legislation change. Where the security is compromised, i.e. the sponsor ends up being insolvent and leaving its DB scheme underfunded, members do not lose their whole pension because a compensation is paid to them by the PPF. However, it is paid subject to the following limitation, and members get a reduced amount (compared to their 'normal' pension); the reduction varies depending on circumstances (see below):

- 100 per cent of the scheme pension is provided to scheme members that over their Normal Pension age (NPA) at the time the scheme enters assessment.
- For members below their NPA at the date of assessment, the PPF provides up to 90 per cent of scheme benefits¹¹⁵.
- This compensation is subject to an overall cap, which is currently set at £39,006.18¹¹⁶;
- Compensation accrued on or after 6th April 1997 is increased each year in line with Consumer Price Inflation (CPI) capped at 2.5 per cent with a floor of zero per cent¹¹⁷. Deferred compensation is re-valued over the period to NPA in line with CPI capped at 5% per annum (for compensation accrued before April 2009) and CPI capped at 2.5% per annum (for compensation accrued on or after 6th April 2009), subject to a 0% floor in both cases.

7. Wider economic and societal impacts

¹¹³ The Purple Book 2018- [Link](#) page 6.

¹¹⁴ Secondary Source- White Paper [Link](#), page 43.

¹¹⁵ The Purple Book 2018- [link](#) page 75

¹¹⁶ Cap at age 65- [link](#)

¹¹⁷ The Purple Book 2015- [link](#) page 73

As set out above, this measure is designed and anticipated to contribute to improving the security of DB pensions. This improved security may have a positive spill over of improved confidence in pensions more generally, which may in turn act as an additional incentive to save. Also, where this measure contributes to protecting members from partial loss of their DB pension it may also result in associated positive externalities like reduced poverty and improved health outcomes.

8. Sensitivity analysis.

8.1 Familiarisation costs

As there is uncertainty about the exact requirements of the Declaration of Intent, we have conducted sensitivity analysis around our assumption that it will take two hours for businesses to familiarise. If employers chose to have an employee dedicate one day (8 hours) - under the above assumptions the familiarisation cost would rise from the £0.7m quoted in 6.1.1 to £2.84m¹¹⁸.

8.2 Ongoing Costs

8.2.1 The number of notifiable events

There is sensitivity around the implicit assumption we make above that the number of notifiable events will remain stable year to year. This analysis has been conducted using the number of notifiable events in 2017-18, but as Table 1 in Section 6.1.1 shows this has varied over the past five years. Applying the same assumptions as discussed above to the lowest number of notifiable events in 2013-14 of 625 would result in a cost to business of approximately £0.545m. The costs that businesses incur will be directly proportional to the percentage of notifiable events triggering a Declaration of Intent and as such, are unlikely to be consistent year on year.

The number of notifiable events has increased from the first year reported. On average throughout the period, 2013-14 to 2017-18 the number of notifiable events has increased by 17% per annum. For the purpose of sensitivity, we have applied this to the 1,139 figure to see how the costs would alter if the number of notifiable events were to grow year on year.

Table 2: Sensitivity analysis- increased number of Notifiable events by 17% and estimated costs associated.

Year ¹¹⁹	Estimated number of Notifiable Events	Estimated number of Declaration of Intents	Total Cost ¹²⁰
2020-2021	1,824	456	1,590,000
2021-2022	2,134	534	1,860,000
2022-2023	2,497	624	2,180,000
2023-2024	2,922	730	2,550,000
2024-2025	3,418	855	2,980,000
2025-2026	4,000	1000	3,490,000
2026-2027	4,679	1170	4,080,000
2027-2028	5,475	1369	4,780,000

¹¹⁸ = 14,000*1*(25.40)*8 = 2,844,800

¹¹⁹ The year 2020-2021 has been selected as start year as an assumption- it is not yet known when these regulations will come into force.

¹²⁰ Rounded to the nearest 10,000.

2028-2029	6,406	1601	5,590,000
2029-2030	7,495	1874	6,540,000

The above table shows how the costs of producing a Declaration of Intent would increase if the number of notifiable events were to increase by 17% per annum. It is important to note that there is a finite number of DB employers and therefore a finite number of notifiable events that could in turn trigger a Declaration of Intent. There are 14,000 sponsoring employers, if the number of Notifiable Events were to increase by 17% per year the number of notifiable events would reach over 7,000 in the year 2029 to 2030. This is more than 50% of the sponsoring employers notifying TPR of one of their events. This is unlikely to increase at this rate continuously over time.

8.2.2 The proportion of notifiable events that would trigger a Declaration of Intent

We made the assumption above that 25% of notifiable events cases would have triggered a Declaration of Intent, incurring costs to business of just under £1m. As this is an arbitrary assumption, we have conducted some sensitivity analysis around the estimate. Our worst-case scenario would be that 35% of notifiable events cases would have triggered a Declaration of Intent. In this worst-case scenario, the costs incurred to businesses would be approximately £1.4m. Our lower estimate would be that 15% of Notifiable Events cases would have triggered a Declaration of Intent; in this case, the costs incurred to businesses would be approximately £0.6m.

8.2.3 Non-quantified costs

At this stage it is considered disproportionate to quantify any 'delayed transaction' cost incurred by businesses because of these changes, and therefore it is possible that EANDCB after secondary legislation is introduced could exceed £5m. As stated previously, a full impact assessment and EANDCB will be conducted at the secondary legislation stage considering these costs.

9. Small and Micro Business Assessment

There is information in the Annual Survey of Hours and Earnings (ASHE) data set on the size of DB sponsoring employers with active members. This will only include those who are contributing to a DB pension so will exclude members who are in schemes closed for future accrual but it helps to provide an indication of the size of DB sponsoring employers. The table below shows the proportion of private sector and not for profit active DB members by employer size.

Table 2: Proportion of active DB members, by employer size¹²¹

Size of Employers	Proportion of DB members
1-9	2%
10-49	10%
50-99	4%
100-499	14%
500-999	9%
1000+	61%

¹²¹ Source: DWP estimates derived from ONS Annual Survey of Hours and Earnings (GB)

The above evidence shows that the majority of active DB members work in businesses with more than 50 employees. The introduction of the Declaration of Intent will impact all businesses who choose to undertake the stated corporate transactions- as such there will not be a disproportionate impact on small and micro employers.

It is possible that smaller start-up businesses would be more likely to take more risks than larger employers would. However, the proposed events that will trigger a Declaration of Intent are below:

- a) Sale of controlling interest in a scheme employer (an existing notifiable event set out in regulation 2(2)(f) of The Pensions Regulator (Notifiable Events) Regulations 2005);
- b) Sale of the business or assets of a sponsoring employer (new notifiable event to be introduced in secondary legislation); and
- c) Granting of security in priority to the scheme on a debt to give it priority over debt to the scheme (new notifiable event to be introduced in secondary legislation).

It is reasonable to assume that the businesses that will engage in these kind of transactions are more likely to be larger employers, rather than small start-ups. Furthermore, we generally would not expect any new start-ups to establish a DB scheme.

10. Monitoring / post implementation review.

We will work with TPR and the industry in order to understand and review the post implementation impact.

Table 3: Estimated Direct costs to business.

	Volumes	Cost ¹²²	How often?	Assumptions	Rationale
Familiarisation Cost	14,000 DB sponsoring employers	£710,000	One-off	One professional will familiarise for 2 hours. Hourly wage of a professional is £25.40 ¹²³ .	This is changes to the primary legislation- more detail will come when secondary legislation is introduced. At this time, think that it will be reasonably straightforward.
Ongoing Costs (Central Scenario)	285 Declarations of Intent per annum	£990,000	Per annum.	3.2 Trustees, spend 2 days (8 hours each day). Hourly wage of a trustee is £28.50. One corporate planner, spends a whole week (40 hours). Hourly wage of corporate planner is £50.80. 25% of Notifiable Events are those that would trigger a Declaration of Intent.	All trustees would be involved. Hourly wage of a corporate planner is expected to be higher than average wage of a professional.
Ongoing costs (low scenario)	171 Declarations of Intent per-annum.	£600,000	Per annum.	3.2 Trustees, spend 2 days (8 hours each day). Hourly wage of a trustee is £28.50. One corporate planner, spends a whole week (40	All trustees would be involved. Hourly wage of a corporate planner is expected to be higher than average wage of a professional.

¹²² Rounded to the nearest 10,000.

¹²³ The median hourly wage of a professional is £20.00 in the Annual Survey of Hours and Earnings 2017 revised- Table 2.5. This has been uprated by 27% for overheads in line with the previous green book- no updated figure was available.

				hours). Hourly wage of corporate planner is £50.80. 15% of Notifiable Events are those that would trigger a Declaration of Intent.	
Ongoing costs (high scenario)	399 Declarations of Intent per annum.	£1,390,000	Per annum.	3.2 Trustees, spend 2 days (8 hours each day). Hourly wage of a trustee is £28.50. One corporate planner, spends a whole week (40 hours). Hourly wage of corporate planner is £50.80. 35% of Notifiable Events are those that would trigger a Declaration of Intent.	All trustees would be involved. Hourly wage of a corporate planner is expected to be higher than average wage of a professional.

Annex E: Defined Benefit (DB) scheme funding – statement of strategy and appointment of Chair

<p>Title: Requirements for Defined Benefit pension scheme trustee boards to appoint a Chair and to regularly prepare, review and submit a statement on their scheme funding and investment strategy to TPR with their actuarial valuation.</p> <p>IA No: DWP-003-2019</p> <p>RPC Reference No: RPC-4339(1)-DWP</p> <p>Lead department or agency: DWP</p> <p>Other departments or agencies: n/a</p>	Impact Assessment (IA)
	Date: 05/02/2019
	Stage: Development/Options
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: DWP eleanor.king1@dwp.gsi.gov.uk
Summary: Intervention and Options	RPC Opinion: Green

Cost of Preferred (or more likely) Option (in 2016 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status Qualifying provision
£ -148.9m	£-148.9m	£17.3m	

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

The Green Paper consultation¹²⁴ and subsequent White Paper¹²⁵, on defined benefit pension schemes identified concerns about a lack of accountability and clarity on what is a good funding strategy. This can result in poor scheme funding and investment decision-making sometimes focused on the short term i.e. the next funding valuation due to be submitted to The Pensions Regulator (TPR).

The current legislative framework is supported by (non-statutory) guidance from TPR in the Defined Benefit Funding Code of Practice¹²⁶. In TPR's research survey¹²⁷, 92% of trustees interviewed stated they had read the DB code of practice or a summary of it provided by the adviser. However, only 64% of trustees stated they had carried out all five of the activities named in the survey intended to assist in the management of funding, investment and covenant risks. This presents evidence to suggest that the non-legislative framework is not sufficient to encourage these behaviours from trustees. We want to encourage behavioural change across all schemes.

Government intervention is necessary to ensure the current quantitative process of assessing scheme funding through an actuarial valuation is complemented by a qualitative narrative from the trustee board that explains their approach to decision making and risk management. We want trustees to set out their scheme funding strategy

¹²⁴Defined benefit pension schemes: security and sustainability: [Link](#)

¹²⁵ Protecting defined benefit pensions: [Link](#)

¹²⁶ DB Funding Code of Practice- [Link](#)

¹²⁷ DB Trust-based pension schemes research: summary report 2018. [Link](#)

What are the policy objectives and the intended effects?

These are to:

- support good governance; improve trustee decision-making in relation to scheme funding by requiring trustees to explain their approach or how they are complying with legislative requirements;
- support collaboration between the trustee board and the sponsor employer; and
- enable TPR to enforce a stronger “comply or explain” regime for all Defined Benefits schemes in relation to scheme funding.

Ultimately the intended effect is to enhance security of members’ pensions.

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

Option 0: Do nothing. This would make no difference to trustee decision making and would not support TPR’s regulatory enforcement action.

Option 1 (preferred option): To require all DB trustee boards to a) appoint a Chair and b) prepare and review annually a Statement strategy and to submit the Statement to TPR in accordance with requirements to be set out in secondary legislation. In addition c) we will require trustee boards to submit their valuation (with the new Statement) to TPR even when there is Statutory Funding Objective¹²⁸ surplus. As part of the work on this option, we also considered alternative implementation options with TPR and through informal engagement with stakeholders e.g. considering whether all or some DB schemes should submit a Statement, or how often the Statement should be submitted. These were not pursued, as they would not raise standards across all DB schemes.

Option 2: (alternative to legislation) Whether the existing legislative framework could be used to deliver our objectives. As discussed above, there is currently a non-statutory DB funding code. While, it would be possible to encourage some behavioural change from trustees using the DB Funding Code- as evidenced above- this approach has not worked currently and would not support TPR’s regulatory

Will the policy be reviewed? It not be reviewed If applicable, set review date: N/A				
Does implementation go beyond minimum EU requirements?		N/A		
Are any of these organisations in scope?	Micro Yes	Small Yes	Mediu mYes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)		Traded: N/A	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:



Date: 6 February 2019

¹²⁸ Introduced by the Pensions Act 2004, the **statutory funding objective** (SFO) requires that an occupational pension scheme that is a salary-related scheme must have sufficient assets to cover its technical provisions (liabilities)

Summary: Analysis & Evidence Policy Option 0

Description: Do Nothing.

FULL ECONOMIC ASSESSMENT

Price Base Year 2017	PV Base Year 2020	Time Period 10 Years	Net Benefit (Present Value (PV)) (£m)			
			Low: Optional	High: Optional	Best Estimate: N/A	
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Cost (Present Value)	
Low	Optional		Optional		Optional	
High	Optional		Optional		Optional	
Best Estimate	N/A		N/A		N/A	
Description and scale of key monetised costs by 'main affected groups'						
A do nothing option would have no impact on the behaviours of trustees, sponsor employers or The Pensions Regulator (TPR), as the current legislative framework is already supported by (non-statutory) guidance from TPR in a Defined Benefit Funding Code of Practice.						
Other key non-monetised costs by 'main affected groups'						
N/A						
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Benefit (Present Value)	
Low	Optional		Optional		Optional	
High	Optional		Optional		Optional	
Best Estimate	N/A		N/A		N/A	
Description and scale of key monetised benefits by 'main affected groups'						
A do nothing option would have no impact on the behaviours of trustees, sponsor employers or TPR, as the current legislative framework is already supported by (non-statutory) guidance from TPR in a Defined Benefit Funding Code of Practice.						
Other key non-monetised benefits by 'main affected groups'						
A do nothing option would have no impact on scheme members' pensions.						
Key assumptions/sensitivities/ risks					Discount rate (%)	3.5

BUSINESS ASSESSMENT (Option 0)

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

Summary: Analysis & Evidence Policy Option 1

Description: Require all DB trustee boards to a) appoint a Chair who is responsible for signing the statement on behalf of the trustee board and b) prepare and review annually a funding and investment strategy and to submit the statement to TPR in accordance with the requirements to be set out in secondary legislation. In addition c) we will require trustee boards to submit their actuarial valuation (with the new Statement) to TPR even when there is a Statutory Funding Objective surplus.

FULL ECONOMIC ASSESSMENT

Price Base Year 2017	PV Base Year 2020	Time Period 10 Years	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: - 168.5
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)	
Low	0.3				
High			1		
Best Estimate	1.0		19.5	168.5	
Description and scale of key monetised costs by 'main affected groups'					
<p>There will be minimal costs to schemes (and ultimately their sponsoring businesses) attached to the appointment of a Chair - because most DB trustee boards already have a Chair, and where they don't, we expect most to be able to appoint one of their existing trustees¹. There will be some ongoing extra costs in the form of the appointed Chair being paid more than other trustees. The extra cost per scheme is not likely to be significant. However, we anticipate that the total annual cost of having a Chair could be approximately £19.5 million, this is derived in the main body of the IA. We expect there to be some familiarising with the requirement to submit a statement signed by the Chair, we estimate this to be approximately £1m. There will be minimal costs to schemes attached to submitting actuarial valuations to TPR, together with the new Statement, when there is a funding surplus (Statutory Funding Objective) because trustees are already required to prepare valuations annually, and the cost of submitting the valuation is marginal. We estimate this to incur a total cost to business of approximately £9,354 per annum.</p>					
Other key non-monetised costs by 'main affected groups'					
<p>We have not quantified the cost of producing funding strategy statement as the detailed requirements (e.g. the content) are not known at this stage. However, we do not anticipate these to be substantial as there is already a clear expectation placed on trustees in the current DB code² to document their approach to funding (e.g. Statement of Funding Principles), investment (e.g. Statement of Investment Principles) and risk management. The new Statement would just clarify and formalise this requirement.</p> <p>We will produce a full assessment of these impacts to support the subsequent secondary legislation, once the detail of these statement is known.</p>					
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)	
Low	0		0	0.0	
High	0		0	0.0	
Best Estimate	0		0	0.0	
Description and scale of key monetised benefits by 'main affected groups'					

¹ Secondary Source White Paper- [Link](#) p.58

² TPR Code of Practice Code 03 Funding Defined Benefits: [Link](#)

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

The key non-monetised benefit is the greater protection and improved outcomes for DB scheme members, via the following mechanisms:

- a) The requirement to appoint a Chair and for the Chair to sign the Statement is anticipated to improve scheme governance generally.
- b) The requirement for a new Statement is intended to improve the trustee board's scheme funding decisions and to support TPR's enforcement.
- c) The amendment to existing legislation to ensure actuarial valuations are submitted when there is a scheme surplus is also expected to improve the security of the members' pensions, because the information can be scrutinised by TPR. Also, it may benefit sponsoring businesses in the form of improved scheme running efficiency and associated cost reduction.

Given the lack of available quantitative evidence on the direct causal link between scheme governance and the impact of the new Statement on trustee board decision making, and the value of member protection/outcomes, it would be disproportionate to produce an estimate of monetised benefits.

Key assumptions/sensitivities/ risks

Discount rate (%)

3.5

There are a number of sensitivities around the estimate for the ongoing cost of having a Chair. The estimate is based on a survey produced by PwC on the difference in annual pay for Chair's and Trustees³. It is possible, however that some Chairs may not be paid for their services at all- if this is the case then this estimate would be lower.

In addition, the increased cost associated with having a Chair is based on the Chair having to work more hours and therefore receiving more pay for this, and a 'premium' for being a Chair rather than a trustee. It is the choice of the scheme whether to pay a 'premium' or how much of a 'premium' to pay for a Chair compared to a trustee.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 19.6	Benefits:0.0	Net: 19.6	
			86.5 (In 2016 prices, 2017 present value)

³ PwC Trustee Survey 2017- Link [here](#).

Evidence Base (for summary sheets)

1. Background

In the White Paper “Protecting Defined Benefit Pension Schemes” (“the White Paper”)¹, the Department proposed a package of measures to optimise scheme funding. In particular to improve accountability and decision making of the trustee board of a DB pension scheme in relation to scheme funding in order to better protect member’s pensions.

2. Rationale for Intervention

In the Green Paper consultation (Defined benefit pension schemes: security and sustainability)² and subsequent White Paper (Protecting defined benefit pension schemes)³ we identified a problem, shared by some stakeholders, about a lack of accountability and clarity on scheme funding standards as currently set out in the DB Funding Code resulting in poor scheme funding and investment decision-making, and insufficient assessment of risks. There was a view that the current quantitative process of submitting an actuarial valuation of the scheme’s funding position would benefit from a qualitative narrative from the trustee board that explained their decision making, how they are complying with legislative requirements and their approach to risk management. Requiring trustees to set out their scheme funding strategy clearly for themselves and explain it to the Regulator should lead to improved decision-making from trustees, more informed discussions between trustees and their sponsor employers, and ultimately give TPR the information it needs to regulate more effectively in order to protect members’ pension.

3. Policy objective

The White Paper makes clear that all DB Boards should appoint a Chair to support good practice and governance. It also outlines the dual purpose of the funding strategy Statement as a:

- Decision-making management tool for the trustee board which will support engagement with the sponsor employer; and
- Key measure to enable TPR to enforce a stronger “comply or explain” regime for all DB schemes on scheme funding, complementing the scheme funding information already submitted to TPR every three years.

4. Preferred option – Option 1

Require:

- All DB schemes⁴ to appoint a Chair of the trustee board or of managers, with the Chair to sign the statement on behalf of the trustee board;
- Each DB board of trustees to prepare an annual statement to demonstrate how clearer funding standards are being met; and
- The trustee board to submit the statement to TPR with the scheme actuarial valuation or as prescribed, including on request by TPR.

¹ Pensions White Paper (March 2018) Protecting Defined Benefit Pension Schemes. [Link](#) - See in particular Chapter 2.

² Security and Sustainability in Defined Benefit Pension Schemes (February 2017)- [Link](#)

³ Pensions White Paper (March 2018) Protecting defined benefit pensions [Link](#)

⁴ Excluding those that are exempt from the funding requirements in Part 3 of the 2004 Act- as they will also be exempt from these changes.

The detailed requirements regarding the content of the statement will be set out in subsequent secondary legislation. The intention is that the Statement will contain the scheme's long-term goals and the trustee's strategic plan for achieving the scheme funding objective (SFO) within the context of the long term goals. Further information on the likely content, subject to further consultation is included in Table 3. A statement is also a requirement for Defined Contribution (DC) pension schemes. While we draw on information available from implementation of the DC statement, the two statements have different purposes and focus on different information. Table 3 below provides a comparison of the DB and DC chair statements for reference.

5. Costs and benefits to businesses.

There are approximately 5,524 private sector DB schemes⁵. Legislation⁶ currently exempts certain schemes from the funding requirements in Part 3 of the 2004 Act- for example schemes with fewer than a 100 members who are not registered for tax relief. For consistency, we want to exempt such schemes from the requirement to appoint a chair and for the board to prepare or review and submit a Chair Statement to TPR with the scheme valuation. There isn't any figures for the exact number of schemes that will be exempt under this legislation, however we anticipate that the number of schemes exempt under these requirements to be minimal.

In 2014, TPR published research relating to a survey on the costs of administering DB pension schemes. Of the 316 private sector schemes which completed the survey the mean annual running cost of schemes varied between £52,126 and £547,877 dependent on scheme size⁷. DB schemes are sponsored by sponsoring businesses, and so we assume that any costs incurred by schemes/trustees would ultimately be incurred by sponsoring businesses.

5.1 Costs of appointing a Chair.

We assume that there are no familiarisation costs attached to the appointment of a Chair. Schemes will be made aware that they are required to have a Chair of their trustee board- familiarisation with this requirement is expected to be negligible especially given the large proportion of DB schemes that already have a Chair.

Currently, having a Chair (of a scheme's trustee board) is not a legislative requirement in DB, but schemes may have a requirement in their individual scheme's rules. According to TPR's 21st Century Trustee Survey⁸ in 2015, 85% of DB schemes (and 92% of hybrid schemes) already have a Chair of their trustee board. However, the proportion varies by scheme size – 74% for small, 87% for medium, 97% for large schemes.

The above figures suggest that only approx. 15% of DB schemes would have to establish a Chair as a result of the proposed legislation (the others already have one). Based on our engagement with TPR and the industry we anticipate that costs of establishing a Chair will be minimal, especially given that in many cases we expect that a Chair could be appointed from amongst the existing trustees.

A requirement to have a Chair for Defined Contribution (DC) type schemes was introduced in 2015. DWP's Impact Assessment on the new DC Chair's statement requirement⁹ concluded that "*There may be some costs associated with establishing a chair of a trustee board. Evidence provided by pension providers in*

⁵ The Purple Book 2018: [Link](#), page 10.

⁶ Regulation 17 of The Occupational Pensions Schemes (Scheme Funding) Regulations 2005

⁷ DB Schemes running cost research 2014- [Link](#)

⁸ Trustee Landscape Quantitative Research 2015- [Link](#) (see table B9 in page 53)

⁹ Minimum Governance Standards for DC trust-based schemes – Impact Assessment (link: [here](#))

response to the consultation suggest that where a chair does not already exist the associated costs with establishing a chair would be minimal – as a chair could be appointed from amongst the existing trustees“.

5.2 Ongoing costs of having a Chair.

A member of a trustee board may work more and be paid more after becoming a Chair, for example, taking up the responsibility on behalf of the trustee board of ensuring the Statement is produced on time, that it accompanies the actuarial valuation and in accordance with other requirements to be prescribed in subsequent secondary legislation. According to PwC Trustee Survey 2017¹⁰, for schemes that pay trustees, the average pay of the Chair of trustees is approximately £50,000 per annum, and for other board members this is approximately £15,000 per annum – but this varies by size (set out in the table below).

Table 1: Difference in average annual pay for Chair and Board Members¹¹.

	Average of Annual pay for Chairman of board.	Average of annual pay for board members.	Difference in average annual pay
Under £0.5bn	£24,429	£5,856	£18,573
£0.5bn-1.5bn	£38,927	£10,418	£28,509
£1.5bn-5bn	£51,500	£10,813	£40,687
Over £5bn	£59,159	£20,658	£38,501

As discussed above, there are proportionally fewer large schemes that do not have a chair. Below we have applied the proportion of schemes without a Chair by size (shown in section 5.1) to the Purple Book 2018’s estimate of the number of schemes by size¹².

Table 2: Estimated number of schemes without a chair by size¹³.

Size of Scheme	Number of schemes without a Chair
2-99 Members	516 ¹⁴
100-999 Members	313 ¹⁵
1,000-4,999 Members	23 ¹⁶

To estimate the total costs to businesses of having a Chair we multiplied the difference in average annual pay shown in Table 1 by the number of schemes for the associated size of the scheme in Table 2¹⁷. This generated a total cost to business per annum of £19.5 million¹⁸.

¹⁰ PwC Trustee Survey 2017- Link: [here](#)

¹¹ PwC Trustee Survey 2017- Table adapted from chart on page 3 - Link: [here](#)

¹² The Purple Book 2018- Figure 2.1 ‘The Purple Book 2018 dataset’ [link](#)

¹³ Note: We have excluded schemes with more than 5,000 members from this table. This is based on the assumption that schemes with that many members are likely to have a Chair.

¹⁴ = 1985 schemes with 2-99 members multiplied by 0.26.

¹⁵ = 2411 schemes with 100-999 members multiplied by 0.13.

¹⁶ = 759 schemes with 1000-4999 members multiplied by 0.03.

¹⁷ Note: We have excluded schemes with asset size of over £5bn difference in trustee chair pay from this analysis. This is based on the assumption that schemes of this asset size are likely to already have a Chair.

¹⁸ = (18,573*516.1) + (28,509*313.43) + (40,687*22.77) = 19,447,544.

Key risks/sensitivities

- It is possible that Chair's and Trustees may not receive a salary at all for the hours they work.
- The increase in salary for a Chair compared to a Trustee is expected to come from two separate changes. Firstly, that the Chair may be required to work more hours in their role in order to make arrangements for the preparation of the statement and also signing it off on behalf of the trustee board. Secondly, they may be paid a 'premium' for being the Chair of the board. Introducing the requirement for a Chair, does not require schemes to pay them more- it is up to the scheme as to what role the Chair performs and the 'premium' applied to this role.

5.3 Costs of producing the Statement – familiarisation and ongoing.

5.3.1 Familiarisation with the requirement of a Statement.

We expect that all schemes will have to familiarise with the new requirements for the statement- even if they already have a Chair in place in the baseline. Resources invested (time etc.) in familiarisation will depend on the exact detail of the requirements for the new Statement and guidance made available by TPR- which will be known at the secondary legislation stage. However, as discussed above the majority of schemes already comply with the requirements in the baseline we expect the familiarisation process to be relatively straight forward.

Here we assume that it will take all trustees 2 hours to familiarise with the requirements of a statement. For DB schemes there are an average of 3.2 trustees per scheme.¹⁹ The average hourly wage of a trustee of £28.50 per hour²⁰. This gives a total familiarisation cost for the statement requirements of £1m²¹.

We believe this is a cautious approach because not all trustees may need to familiarise. Assuming only one per scheme needs to would give an estimate of approximately £0.3m²².

5.3.2 Ongoing Costs

Costs of preparing and reviewing the Statement will directly depend on the content required and support (guidance) available. The content will be set out in secondary legislation. We will determine the costs and the Equivalent Annual Net Direct Cost to Businesses (EANDCB) more fully at the secondary legislation stage. At this stage we do not quantify the costs of producing statement.

However, we do not anticipate these costs to be significant as there is already a clear expectation placed on trustees in the current DB code to document their approach to funding, investments and risk management, and the Statement would essentially clarify and formalise this existing requirement. Also, as set out in the Government's White Paper, some costs of producing the Statement may be offset by removing other requirements on trustee boards to report information to TPR.

Cost of producing the Statement will depend on whether they currently comply and therefore schemes will fall into two groups:

¹⁹ Trustee Landscape Quantitative Research 2015- Estimate based on Figure 3.2.3 Number of trustees by scheme size. [Link](#)

²⁰ The median hourly wage for a corporate manager or director is £22.44 in the Annual Survey of Hours and Earnings 2017 revised, Table 2.5. [Link](#) This is uplifted by 27% for overheads from the previous version of the Green Book, no updated estimate is available.

²¹ =28.4988*2*3.2*5,524

²² = 28.4988*2*1*5,524

a) Those trustees already complying with the current DB code will already take a long-term view of their funding strategy, manage risks in an integrated way and document their approach. This means the costs of formalising what they already have in place should be less than if they are not already compliant with current expectations. TPR’s DB Survey²³ results show that 92% of trustees are in a position to evidence how they have taken an Integrated Risk Management (IRM) approach (but note not all of them actually apply all IRM principles to its full extent);

b) Those who are not complying with the current DB Funding Code may have higher upfront costs to reach the level of compliance already expected. From TPR’s case experience and their latest DB governance survey we know that the DB code principles are not universally applied: a) two thirds (64%) of trustee boards reported that they carried out all five activities asked about with the aim of managing funding, investment and covenant risks²⁴, b) the proportion of schemes that are closed to future accrual that had in place a journey plan or long-term target (in addition to legally mandated technical provisions) stood at 76% among trustee boards and 79% among employers²⁵.

When a Statement requirement was being introduced for DC schemes, TPR estimated that the additional cost of producing and attaching this statement to the audited report and accounts could be between £350 and £3,250 per scheme per annum on average depending on scheme size²⁶. [However, we highlight that requirements in relation to the DC Chair’s Statement will be fundamentally different to that in DB, and so the costs mentioned here are for very broad illustrative purposes only.](#)

Table 3: Comparison between DB and DC Chair Statement

Comparing the Statements for DC schemes with DB schemes

Defined Contribution	Defined Benefit
Annual Statement Regarding Governance, essentially to reduce the amount of members’ pension lost through investment costs and charges	To be submitted to TPR on a triennial basis even with actuarial valuation to improve scheme funding decision and enforcement, safeguards on calls for more contributions from employers
Statement reports on: <ul style="list-style-type: none"> • Timely scheme transactions • Trustee knowledge and understanding • Investment Strategy for default arrangements • Investment costs and charges, and impact 	Subject to further consultation, the Statement is intended to report on: <ul style="list-style-type: none"> • The long term funding and investment strategy for the scheme • Trustee’s approach to scheme funding, investment and risk management in light of the long term destination for the scheme • To assists TPR’s comply and explain regime: the Statement should explain how trustees are demonstrating the good practice set out in the revised DB Funding Code, and where they cannot they must show they are complying with legislative requirements.

²³ TPR DB Schemes Research: Summary Report 2017- [Link](#)

²⁴ TPR DB Schemes Research 2018: Report- [Link](#), page 18.

²⁵ TPR DB Schemes Research 2018: Report- [Link](#), page 5.

²⁶ Source: Minimum Governance Standards for DC trust-based schemes, [link](#)

As mentioned above, we will produce a full assessment of the requirements that will be set out in secondary legislation stage.

5.4 Cost of submitting actuarial valuation when there is an SFO surplus

Baseline Scenario: All DB schemes are required to conduct an actuarial valuation of their scheme every year. Schemes that are in deficit are required to submit their valuation and recovery plan to TPR at least every three years²⁷. Those schemes that are in surplus are not required to submit their valuation but are required to provide some information to TPR through the 'Schemes in surplus' form as part of the Scheme Return²⁸ - this includes basic information used in the valuation such as discount rates, RPI/CPI assumptions etc.

The proposed change here is that schemes that have completed a valuation which shows them to be in surplus in respect of the Statutory Funding Objective, will now also have to submit that valuation to TPR. The administrative burden of this is expected to be minimal as this would replace the already existing 'Scheme in surplus' form. The costs associated with this proposed change are described below.

5.4.1 Familiarisation with submitting the actuarial valuation

Valuations are submitted to TPR via their exchange service. Schemes already use this service for a variety of scheme related activities including submitting their annual Scheme Return. In addition, schemes should also be aware of how to submit the valuation in case their scheme was to be in deficit. As such, we believe that schemes will incur negligible familiarisation costs as they are already aware of the process of submitting their valuation.

5.4.2 Ongoing cost of submitting the actuarial valuation

It is difficult to estimate the exact ongoing cost of submitting the valuation to TPR at this stage. Based on TPR's experience, we expect the extra cost of this requirement for surplus schemes to comprise of:

The number of schemes in surplus multiplied by the (cost of uploading valuation documents on Exchange plus the cost of filling in valuation summary minus the cost of updating return). Schemes are already expected in the baseline to undertake a valuation and to upload some of this information in the 'Scheme in surplus' component of the scheme return. As such, we assume that the changes to the requirements will result in an extra hour of work for either a scheme administrator or actuary. This produces a total per annum cost of approximately £9,354 for businesses. This comprises of:

- **Number of schemes submitting the valuation per annum:** As at 31 March 2017, approximately 20% of DB schemes were in surplus on the SFO basis²⁹. This estimates that approximately 1,105 schemes are in surplus. As schemes are placed into tranches, different schemes will conduct and submit their valuations in different years. For simplicity we assume that these 1,105 schemes in surplus are split evenly across the different tranches and that 1/3 (368 schemes) are conducting and submitting their valuations each year.
- **Hourly wage for professional** is equal to £25.40³⁰- we use this as a proxy for the wage of both a scheme administrator and actuary.

²⁷ Recovery Plans- [Link](#)

²⁸ DB and Mixed Benefit Scheme Return Example Form- page 25 [Link](#)

²⁹ White Paper- [Link](#) page 52.

³⁰ The median hourly wage of a professional is £20.00 in the Annual Survey of Hours and Earnings 2017 revised, Table 2.5. This is uplifted by 27% for overheads from the archived Green Book- [Link](#)

- One hour of extra time spent as a result of the changes.

We think this a cautious approach as the time spent submitting the valuation should be minimal. In addition, TPR currently has an internal procedure for checking a cross section of surplus valuations every year and may already request a copy of the scheme's valuation for this assessment.

5.5 Benefits of appointing a Chair and the new Statement

As set out in the Department's White Paper, this measure is expected to support trustees and their sponsoring employers to make the best possible long-term decisions to meet the pension liabilities of all members of the pension scheme over time.

The Department's White Paper³¹ stated 'The Chair's statement is expected to lead to better management practices and decision making. In essence, it is a form of accounting for decisions made and actions taken, and is expected to (a) 'remind' about, and (b) trigger compliance with the requirements and adequate amount of effort put in when making decisions such as investment decisions.'

It is not possible to quantify the benefits as many other factors drive improvements in governance and it is difficult to estimate the baseline. Quantifying the benefit would be disproportionate as isolating those impacts from other factors that drive scheme governance and cost efficiency would be a very complex and resource intensive exercise. However, there is evidence that an improvement in governance would lead to better pension outcomes:

- A study by Willis Tower Watson³² concluded that they 'believe the investment case for improving governance is, for most funds, overwhelming'.
- Clark and Urwin³³ have also shone the light on the benefits of good governance and illustrated that their sample of 'best-practice' schemes achieved at least 2% per annum more return than their benchmarks.
- Ambachtsheer et al found a positive statistical relationship between good governance and investment performance (in a sample of 81 schemes from around the world). Schemes with good standards of governance (self-assessed by schemes and with size of scheme controlled for) added 1-2% per annum in investment performance when compared to less-well governed schemes³⁴.
- A study by Ammann and Ehmann 2014³⁵ constructed objective governance scores for Swiss pension funds (sample of 139) based on organisational structure, target setting and investment strategy, investment process, risk management, monitoring and transparency. The scores were then compared to investment performance and found a positive relationship.

The Statement is intended to result in better decision making in line with clearer funding standards over the long term and collaboration with employers through the Declaration of Intent (DoI)³⁶. Given that DB pension schemes are sponsored by an employer (businesses), improved scheme governance and accountability as a result of the proposed requirements is likely to benefit the sponsoring businesses e.g. through improved efficiency and cost transparency – potentially reducing cost pressure on them.

6. Costs and benefits to scheme members

6.1 Costs of appointing a Chair and Cost of submitting a Statement and actuarial valuation every 3 years

³¹ White Paper- [Link](#) page 59.

³² [Link](#)

³³ Clark G & Unwin R (2008), Best-practice pension fund governance; secondary source: PPI Briefing Note 89, [link](#)

³⁴ Source: Ambachtsheer et al 2006, [link](#); secondary source: PPI Briefing Note 89, [link](#)

³⁵ Source: Ahmmann M & Ehmann C (2014) Is Governance Related to Investment Performance and Asset Allocation? Secondary source: PPI Briefing Note 89, [link](#)

³⁶ For more information on these policy changes see the separate LTO RIA and DoI RIA.

These measures will not result in any costs to scheme members as they will not have to familiarise or implement any of the requirements.

6.2 Benefits of appointing a Chair

The requirement to have a Chair and for the trustee board to regularly produce and report their funding strategy to TPR is designed to improve scheme governance and decision making, which in turn is intended to ensure scheme running is both more efficient and more secure for members.

6.3 Benefits of a Statement with actuarial valuation (even when there is a scheme funding surplus) from the trustee board

As set out in the Department's White Paper, wider evidence coming from behavioural, management, and psychology related disciplines suggest clarification, commitment and external monitoring does tend to lead to positive outcomes. For example, FCA's Behaviour and Compliance in Organisations study³⁷ says that 'one of the lessons of the psychological literature on behavioural biases is that the 'bias blind spot' means that it is easier to spot such biases in others than it is to spot in oneself'. In some cases trustee decision making can be seen as a behavioural bias - this is where problems such as loss aversion can lead to decision makers becoming attached to poor practices³⁸. One way of correcting these sorts of biases is to use decision making tools e.g. a checklist or, in this context, a Chair's Statement to increase internal scrutiny. Some psychologists argue that these work via increasing reflective decisions (those that are slow, deliberate and with effort) over intuitive decisions (those with minimal preparation, effortless and instinctive) which can help to reduce these biases.

As mentioned above, the Chair's statement in DC pensions is a very different context, however evidence and experience from DC does help to reassure that it is reasonable to expect that the intended effects are achievable in practice. As set out in the White Paper, in the course of their 21st Century Trustee engagement exercise, TPR heard evidence from practitioners and stakeholders that the DC Chair Statement was having a positive impact – the requirement has helped focus trustees on governance and make improvements (transparency drives accountability).

Better scheme governance is anticipated to improve the security of members' pensions – i.e. to increase the likelihood of members ending up getting their pensions (promised to them) paid in full.

Additionally, preparing this information and submitting it to TPR for scrutiny, could lead to better informed products or clearer communication to members (through for example, the Statement of Funding Principles or the Summary Funding Statement).

7. Small and Micro Business Assessment SaMBA

The proposed changes will affect all DB schemes and their sponsoring employers regardless of sector or size. As discussed in section 5, legislation³⁹ currently exempts certain schemes from the funding requirements in Part 3 of the 2004 Act. For consistency these schemes will also be exempt from the proposed changes.

The majority of DB schemes have more than 100 members, as set out in table 4. Although this refers to scheme size and is not a direct measure of the number of employees in the underlying sponsoring employer, it indicates that small and micro employers (up to 49 employees) would not be disproportionately impacted by this measure.

Table 4: Number of DB schemes by scheme size⁴⁰

³⁷ [Link](#)

³⁸ Definition based upon FCA behaviour and compliance in organisations.

³⁹ Regulation 17 of The Occupational Pensions Schemes (Scheme Funding) Regulations 2005

⁴⁰ PPF Purple Book 2018 Figure 2.1 [Link](#)

Number of members	Number of schemes (Purple Book- Estimated 2018 Universe)
2-99	1,985
100-999	2,411
1,000-4,999	759
5,000-9,999	171
10,000+	198
Total	5,524

Source: PPF Purple Book 2018

As set out above, relatively fewer small schemes currently have a Chair of their trustee board compared to large schemes. Also, evidence suggests that smaller schemes, on average, tend to be less compliant with the current DB code and good practices – which means some of them may need to invest relatively more resources in meeting the new requirements. Therefore, the proposed changes will have a larger impact on those DB sponsoring employers that sponsor a smaller sized scheme. At the same time, this means they are likely to benefit relatively more given the scope they have for governance and management improvements.

The costs to business fall to the sponsoring employers of the DB schemes. Small and micro businesses that sponsor DB schemes may be affected. However, assessing the impact of the proposed changes in this IA on this group is difficult, as it is not necessary that small and micro pension schemes correspond to small and micro businesses. For example, a large firm may sponsor a small scheme with only a few members. Similarly, DB schemes can be sponsored by multiple employers so it could be that many small and micro businesses sponsor larger DB schemes. As this is likely to impact small pension schemes, and there is currently no robust evidence to link pension scheme size to employer size, it is difficult to accurately assess the impact on small and micro business.

The Annual Survey of Hours and Earnings (ASHE) data set provides information on the size of DB sponsoring employers with active members. This will only include those who are contributing to a DB pension so will exclude members who are in schemes closed for future accrual but it helps to provide an indication of the size of DB sponsoring employers. The table below shows the proportion of Private sector and Not for Profit active DB members by employer size.

Table 5: Proportion of DB sponsoring employers, by employer size⁴¹

Size of Employers	Proportion of DB members ⁴²
0	0%
1-9	2%
10-49	10%
50-99	4%
100-499	14%
500-999	9%
1000+	61%
All sizes	100%

The above evidence shows that the majority of active DB members work in businesses with more than 50 employees. Approximately 10% and 2% of active DB members work in Small and Micro businesses respectively. If these employers sponsor smaller sized schemes then they may encounter a higher cost

⁴¹ Source: DWP estimates derived from ONS Annual Survey of Hours and Earnings (GB)

⁴² Figures below are rounded to the nearest 1%,

as a result of this measure relative to their overall costs, however they will also benefit from the introduction of this requirement. As discussed above in section 5.5, it is not possible to quantify these benefits due to the number of different factors that contribute to governance and the uncertainty of predicting future investment outcomes. It should also be noted here that the costs incurred to the scheme rise with the size of the assets of the schemes. As such, we don't expect that there will be a disproportionate impact on small and micro businesses as a result of the proposed changes in this impact assessment.

8. Monitoring and Evaluation.

We will work with TPR and the industry in order to understand and review post implementation.

9. Implementation

We intend to introduce primary legislation as soon as parliamentary time allows. This legislation would require DB schemes to have a Chair and for them to produce a statement of Strategy. We provisionally assume in this impact assessment that this will be in 2020

Estimated direct costs

Table 6: Estimated impacts for introducing the requirement for schemes to have a Chair.

	Schemes	Cost	How often?	Assumptions	Rationale
Familiarisation with the requirements	516 Small schemes (2-99 members) 313 Medium schemes (100-499 members) 23 Large schemes (500-4999 members)	-	One-off	We assume that there are no familiarisation costs attached to the appointment of a Chair.	Schemes will be made aware that they are required to have a Chair of their trustee board- familiarisation with this requirement is expected to be negligible especially given the large proportion of DB schemes that already have a Chair
Appointing a Chair	516 Small schemes (2-99 members) 313 Medium schemes (100-499 members) 23 Large schemes (500-4999 members)	-	One-off	We assume that there are no costs attached to the appointment of a Chair.	Based on our engagement with TPR and the industry we anticipate that costs of establishing a Chair will be minimal, especially given that in many cases we expect that a Chair could be appointed from amongst the existing trustees. A requirement to have a Chair for Defined Contribution (DC) type schemes was introduced in 2015. DWP's Impact Assessment on the new DC Chair's statement requirement ¹⁷⁴ concluded that " <i>There may be some costs associated with establishing a chair of a trustee board. Evidence provided by pension</i>

¹⁷⁴ Minimum Governance Standards for DC trust-based schemes – Impact Assessment (link: [here](#))

					<i>providers in response to the consultation suggest that where a chair does not already exist the associated costs with establishing a chair would be minimal – as a chair could be appointed from amongst the existing trustees“.</i>
Ongoing cost of having a Chair	<p>516 Small schemes (2-99 members)</p> <p>313 Medium schemes (100-499 members)</p> <p>23 Large schemes (500-4999 members)</p>	<p>516 Small Schemes multiplied by £18,573 (difference between Chair and Trustee annual pay for schemes with less than £0.5bn assets) equals £9.6m.</p> <p>313 Medium schemes multiplied by £28,509 (difference between Chair and Trustee annual pay for schemes with £0.5bn to £1.5bn in assets) equals £8.9m.</p> <p>23 Large schemes multiplied by £40,687 (difference between Chair and Trustee annual pay for schemes with £1.5bn to £5bn in assets) equals £0.9m.</p>	Per annum		
Total Cost					£19,447,544 per annum.


Table 7: Estimated impacts for the requirement for the Chair to sign a FIRM (Funding Investment and Risk Management) statement.

	Schemes	Cost	How often?	Assumptions	Rationale
Familiarisation with the requirements	5,524 DB Schemes	£1,007,535.	One-off	<p>All schemes will choose to familiarise.</p> <p>Hourly wage of a trustee is £28.50</p> <p>It takes 2 hours to read through and transpose the document about the new requirements.</p> <p>The average number of trustees is 3.2.</p>	
Ongoing costs of complying with the requirements.	5,524 DB Schemes	To be estimated once detail and content is confirmed at the secondary legislation stage.	Per annum		
Total Cost	£1,007,535 in Year One.				

Table 8: Estimated impacts for the requirement to submit an actuarial valuation even if the scheme is in SFO surplus.

	Schemes	Cost	How often?	Assumptions	Rationale
Familiarisation with the requirement	1,105 DB Schemes	-	One-off		Schemes are already familiar with the Exchange service as this is where they have to submit their Scheme Return. Schemes should also be aware of how to submit the valuation in the case that their scheme would be in deficit.
Ongoing costs of submitting the actuarial valuation.	1,105 DB Schemes	£9,354	Per annum.	20% of schemes are in surplus. Schemes will submit the valuation triennially, we assume the schemes in surplus are evenly distributed across all the different tranches- so an additional 368 schemes per annum will be submitting their valuation per annum. The hourly wage of a Scheme administrator is approximated to be £25.40. Schemes will spend an additional 1 hour submitting this information compared to the baseline scenario.	
Total Cost	£9,354 per annum				

Annex F: Defined Benefit (DB) scheme funding – long term funding and investment strategy

 Department for Work & Pensions		Impact Assessment (Bill introduction)	
Title of measure		Clearer funding standards for Defined Benefit occupational pension schemes – funding and investment strategy	
Lead Department/Agency		DWP	
Planned coming into force /implementation date		TBC	
Origin (Domestic/EU/Regulator)		Domestic	
Policy lead		Mo Muqtadir	
Lead analyst		Tom Moulard/Eleanor King	
Departmental Assessment		Self-certified	
Total Net Present Social Value (in 2016/17 prices) (over 10year period): £-1.3m		Equivalent Annual Net Direct Cost to Business (EANDCB- in 2016/17 prices)(over 10 year period: £0.2m	
		Business Impact Status: Non-Qualifying Regulatory Provision	
Summary - Intervention and impacts			
<p>Policy Background – Issue – Rationale for Intervention – Intended Effects</p> <p>To address poor decision-making¹⁷⁵, we will set out more clearly the funding standards all Defined Benefit (DB) schemes will be required to meet, and the Pensions Regulator (TPR) will support trustees and sponsor employers through a revised DB Funding Code. To make sure that trustee boards take a more strategic and long term view, we will require all trustee boards to:</p> <ul style="list-style-type: none"> • Determine the long term funding and investment strategy for their scheme underpinned by a funding strategy for reaching this destination; • Be clear about the strategy of the scheme to reflect the long term nature of pensions; • Encourage accountability through explaining their funding strategy, their consideration of risk management and how they are complying with clearer funding standards. This will be via a Statement submitted to TPR at least every three years, complementing the actuarial scheme funding valuation. <p>These measures are designed to improve scheme funding across all DB schemes and in the context of a maturing DB landscape where most schemes are closed.</p> <p>This impact assessment deals with the primary legislation needed to achieve the above. There will be subsequent secondary legislation which will, for example, prescribe factors to consider in establishing a long term funding and investment strategy.</p>			
<p>Brief description of viable policy options considered (including alternatives to regulation)</p> <p>We considered the following options:</p> <p>Option 0: Do nothing</p>			

¹⁷⁵ The Department's White Paper 'Protecting Defined Benefit Pension Schemes' identified that DB scheme funding outcomes are affected by poor decision making, short term thinking and a lack of accountability. <https://www.gov.uk/government/publications/protecting-defined-benefit-pension-schemes>

Leaving the system as it is would not deliver improvements to the scheme funding system. Funding standards would lack clarity, which would continue to lead to poor decision making, and TPR would continue to find them difficult to enforce. Although many schemes have a long-term strategy in place, evidence¹⁷⁶ suggests that a sizeable minority do not. As a result, members of these schemes would be at risk of poorer retirement outcomes because of poor decision making outside the scope of existing TPR powers.

Option 1: Making the DB Funding Code enforceable

Making DB Funding Code¹⁷⁷ enforceable would not resolve the problem of lack of clarity; giving statutory force to something that was already unclear would not achieve our aim of targeting poor decision making. In addition, TPR has already taken steps to support trustees’ voluntary application of the Code, and this has not been enough to suggest that making it enforceable would be effective. We therefore determined to tackle the root cause by using primary and secondary legislation to deliver clearer funding standards, which will be reflected in a clearer Code in due course.

Option 2 (preferred option): Amend primary legislation to:

- give TPR stronger scheme funding powers to take action against trustees that do not comply with this new obligation;
- introduce a new regulation making power, to be used alongside existing regulation making powers to support clearer funding standards by clarifying “appropriateness” in secondary legislation;
- require trustee boards to explain their funding strategy in a new Statement that is to be submitted to TPR. The impact of this measure will be assessed once the content of the Statement is determined through secondary legislation (see IA on Chair/Statement¹⁷⁸).

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

Impacts will be determined by the factors to be set in secondary legislation, and the long-term destination that is set by the trustee board. A Business Impact Assessment will be completed by TPR following their consultation to accompany the revised DB Funding Code (TPR call this a Business Impact Target). At this stage, we give a high-level assessment of possible business and other impacts.

We anticipate there to be minor familiarisation and implementation gross cost to business, partially offset by savings associated with improved clarity of the requirements. There are also expected savings as a result of a better funding position. The new requirement for trustees to set a long-term funding and investment strategy is not expected to have a significant impact on schemes and their sponsors who already have an existing obligation to meet their pension liabilities/promise. There may be some, relatively minor, implications on scheme servicing and associated costs.

Departmental Policy signoff (SCS): Joanne Gibson 12/03/2019	Date:
Economist signoff (senior analyst): Joy Thompson 14/03/2019	Date:
Better Regulation Unit signoff: Prabhavati Mistry	Date: 12/03/2019

Additional detail – policy, analysis, and impacts

¹⁷⁶ [Defined benefit trust-based pension schemes research](#) summary report- [Link](#) and Global Pension Risk Survey 2017- [Link](#)

¹⁷⁷ Code of Practice 03- Funding Defined Benefits [Link](#)

¹⁷⁸ See annex E for the IA on Trustee and Board Statement.

Setting long-term strategy - costs and benefits to businesses

1. Background information – scheme liabilities; and scheme running strategies and objectives

Defined Benefit (DB) pension schemes pay a fixed amount of pension income to their members based on an employee's salary and years of contribution. Risks – including longevity risk and investment return risk - are born by the scheme and its sponsor (employer), not the member. A scheme's funding position is evaluated annually as required by legislation and submitted to TPR at least every three years.

A scheme's funding position is the difference between the assets the scheme holds and its liabilities (i.e. how much it is expected to have to pay out to its members). DB liability (and hence funding position) estimates inherently carry an element of uncertainty as, for example, it is impossible to estimate future longevity or investment returns with certainty. There are a range of DB scheme liability measures, each designed and used for a specific purpose. They differ in the way the assumptions needed to assess scheme liabilities (like future investment returns) are made. The most relevant measures for the purposes of this impact assessment are the Statutory Funding Objective and the International Accounting Standard Nineteen (IAS19):

- Statutory Funding Objective (SFO): This is a 'going concern' assessment of whether the fund will have sufficient assets to meet its liabilities. This is the measure used by TPR to assess if a deficit repair plan (RP) is needed. The precise method of measurement and assumptions made varies from scheme to scheme according to the circumstances, but it is always prudent to some degree.
- IAS19 (also known as 'the accounting measure'). This valuation method is used when companies report their annual accounts. The methodology is set on a common basis to facilitate international comparisons.

More details of all four widely used valuation methods is set out in the Department's green paper 'Security and sustainability in Defined Benefit pensions' and in TPR's 'Understanding DB pension scheme funding' factsheet¹⁷⁹.

It is important to highlight that scheme liabilities are a product of the number of current and future members, the level of pension promised to them based on their contributions, their longevity (and other characteristics like family status), and future investment returns. However, liability estimates vary depending on valuation method used because most of these components are not known with certainty at present time and assumptions have to be made.

DB schemes may have different strategies and objectives regarding how they are run in longer-term (more detail and discussion can be found in the White Paper). Examples of an acceptable long-term strategy could be to:

- Run-on with employer support (for open schemes);
- Reach self-sufficiency with low-risk investment strategy and run-off with minimal call on the sponsor employer;
- Buy-out by a set time; or
- Enter a consolidator vehicle within an agreed timeframe.

The existing good funding practice, facilitated by TPR, already encourages schemes to have a long-term objective in place. However, it is not mandatory.

2. The baseline / counterfactual

Most DB schemes already have a long-term strategy in place. For example, according to TPR's DB Research 2018¹⁸⁰, 76% of trustees and 79% of employers responded that schemes closed to future accrual had in place a journey plan or long-term target; which leaves nearly a quarter that did not have an explicit long term-target. Surveys from pensions consultancies also tend to suggest that most schemes already

¹⁷⁹ Understanding DB pension scheme funding- [Link](#)

¹⁸⁰ [Defined benefit trust-based pension schemes research](#) summary report- page 5. [Link](#)

have a long-term strategy. For example, according to Aon's Survey¹⁸¹, which interviewed 185 schemes, only 5% to 10% (depending on size band) did not have a long-term plan (but note that Aon's clients may not represent the industry average).

Based on this evidence, we assume that 80% of DB schemes already have a long-term strategy in place (approximate midpoint between the 76% TPR research and 90-95% Aon Survey). As this is a point in time estimate, we also assume that there is a constant proportion in the counterfactual over time. This assumption is based on signals suggesting that although the proportions of schemes with different objectives have been changing over recent years, the proportion reporting no or unknown objectives stayed broadly similar (e.g. 6% according to Aon's survey 2015, and 8% according to Aon's survey 2017).

However, as pointed out by TPR and referenced in the Department's White Paper, *schemes may well have a long-term plan but for some the plan may be largely aspirational and does not drive funding and Deficit Repair Contribution (DRC) commitment*. This means that some schemes may have a largely aspirational plan and will still be required to change their existing Long Term Objective (LTO) to reflect the proposed changes of introducing a long term funding and investment strategy (LTD) here.

3. Business impacts

The proposed option will require schemes to set a long-term destination, but it is for individual schemes to choose what is best for them (trustees to set it in line with the specific characteristics of the scheme such as its maturity¹⁸², whether it is open or closed to future accrual and the financial strength of the employer). A regulation making power will allow for the factors to be considered by trustees when setting a suitable destination to be prescribed in secondary legislation.

3.1 Familiarisation and implementation costs.

There are 5,524 DB schemes in total. As set out above, we assume 80% already have a long-term objective in place. That means the remaining 1,105 schemes¹⁸³ will be directly affected by the requirement. As some schemes may have a largely aspirational plan, which does not drive scheme management and funding decisions, we make an assumption about the number of schemes with a funding and investment strategy that does not drive scheme management decisions. The percentage of schemes with a LTO that is only aspirational could be anywhere between 0% and 100%. In the absence of any certain information, we assume that half of those that already have an LTO have it as an aspiration – i.e. 2,210¹⁸⁴ schemes. Sensitivity analysis around this assumption is conducted below in section 3.1.1.

The exact requirements and guidance that will be available are not known at this stage. TPR will undertake an initial consultation¹⁸⁵ on making its Defined Benefit Funding Code of Practice clearer, focusing on how 'prudence' and 'appropriateness' can be defined to better balance employer commitments with risks to members and the Pension Protection Fund (PPF). The consultation will also consider what parameters are needed for meeting the SFO; and setting the technical provisions in the context of the scheme's funding and investment strategy (for example through a Code and guidance), as well as how trustees can best assess the SFO's robustness against external risks. This consultation will inform future changes to secondary legislation and lead to a revised DB Funding Code.

At this stage, before the consultation and exact requirements and guidance are agreed, we cannot estimate familiarisation and implementation (and other) costs with any certainty. As set out above, a full assessment will be provided for the secondary legislation stage and/or in TPR's Business Impact Target. For now, we give a broad illustration of potential and broad scale of impact only.

¹⁸¹ Global Pension Risk Survey 2017- [Link page 6.](#)

¹⁸² Maturity level is the proportion of all scheme members that are current pensioners; the higher the proportion the more mature the scheme is said to be.

¹⁸³ = 5,524*0.20 = 1,105

¹⁸⁴ = ((5,524-1,105) x 0.5) = 2,210

¹⁸⁵ Sections 90 and 91 Pensions Act 2004

For the purposes of giving an illustration of familiarisation costs we assume the following:

- It will take half a day (4 hours) for a trustee to read through and 'absorb' the changes.
- Just one trustee from those schemes that already have a funding and investment strategy will need to familiarise (sharing the information with other trustees of the scheme is then assumed to be negligible).
- All trustees from those schemes that have none or just an aspirational LTO will have to familiarise;

There are 3.2 trustees per DB scheme¹⁸⁶, on average. Assuming an average hourly wage of a trustee of £28.50 per hour¹⁸⁷ and applying the figures and assumptions above gives an illustrative cost estimate for familiarisation at the secondary stage of £1.5 million¹⁸⁸.

Those that do not already have a long-term destination or set their statutory funding objective with a long-term destination in mind will need to do this. This may involve trustee negotiations with their sponsoring business, as well as seeking advice from scheme actuaries and / or external consultants. Associated costs are expected to vary on a scheme-by-scheme basis – from negligible for those that already have a clear strategy and just need to formalise it, to potentially material for those that are currently applying a short-term approach to scheme management (focused only on the next triennial review). At this stage, we cannot quantify the funding and investment strategy setting costs due to scheme specific nature and significant uncertainties involved. TPR will consult before any changes to the DB Funding Code are made, and will produce a Business Impact Target. As mentioned in the Department's White Paper, TPR's initial view based on their experience is that *the governance costs of setting a long-term objective will be relatively low for those already adopting good practice and applying the principles set out in the DB funding code*¹⁸⁹.

3.1.1 Familiarisation/Implementation Cost- Sensitivity Analysis

We have arbitrarily assumed that 50% of the schemes with an LTO have it as an aspiration rather than firm commitment. If all schemes with an LTO were to have this as an aspiration rather than firm commitment, all 5,524 schemes would have to go through the full familiarisation process with all trustees reading through and transposing the requirements. In this worst-case scenario, the total familiarisation cost to businesses would be approximately £2 million¹⁹⁰. However, if all schemes with an LTO currently have it as a firm commitment, then only schemes who do not have an LTO currently would have to complete the full familiarisation process. As discussed above we assume 20% of schemes do not have an LTO currently, and therefore only 1,105 schemes would have to go through the full familiarisation process. This would result in total familiarisation costs of £0.9m¹⁹¹.

3.2 Ongoing costs and benefits.

As set out above, having a long term funding and investment strategy in place will not alter the schemes' underlying pension liabilities. However, it may have some implications on scheme servicing and associated costs. Broadly speaking, clearer funding requirements, including LTD, may have the following implications on some schemes:

- 1) Scheme liability estimates and associated contributions.

Any estimates of scheme liabilities and hence net funding position inherently carry a degree of uncertainty (irrespective of the long-term destination that is chosen). Those schemes that are currently targeting artificially low pension scheme liabilities and / or inconsistently with their long-term objective may need to revise their approach as a result of the proposed changes. In some cases, the change in the valuation may lead to a higher estimated deficit (of the scheme). The higher estimated deficit may in turn lead to higher

¹⁸⁶ Trustee Landscape Quantitative Research 2015- Estimate based on Figure 3.2.3 Number of trustees by scheme size. [Link, page 14.](#)

¹⁸⁷ The median hourly wage for a corporate manager or director is £22.44 in the Annual Survey of Hours and Earnings 2017 revised, Table 2.5. This is uplifted by 27% for overheads from the archived Green Book. [Link](#)

¹⁸⁸ Calculation: (1,105+2,210) x 3.2 x 4 x £28.50 + (2,210) x 1 x 4 x £28.50 = £1,460,926

¹⁸⁹ Protecting Defined Benefit Pension Schemes (White Paper- March 2018) [Link](#), page 57.

¹⁹⁰ = 4*3.2*28.50*5524 = 2,015,070

¹⁹¹= (4*3.2*28.50*1,105) + (4*3.2*28.50*4,419) = 906,782

DRCs required by TPR. This does not change the real (underlying) pension liability; but it alters the way the scheme is being serviced. In essence, in this situation, some contributions into the scheme are brought forward, but the overall funding requirement over the scheme’s lifetime is not altered. However, applying time-discounting (as required by the HMT’s Green Book) to cash flows means there may be some cost to business from contributions brought forward even if the overall scheme’s lifetime gross servicing cost remains unaffected.

However, in some cases the scheme funding (and hence business cost) impact may be the opposite. Current lack of clarity in funding requirements and the scheme’s long-term objective means there is a risk that in some cases schemes may be applying overly cautious assumptions for the purposes of their valuations leading to artificially inflated deficit estimates and associated costs. The requirement to have a specific long term funding and investment strategy and clearer funding standards more generally may lead to some savings for those schemes.

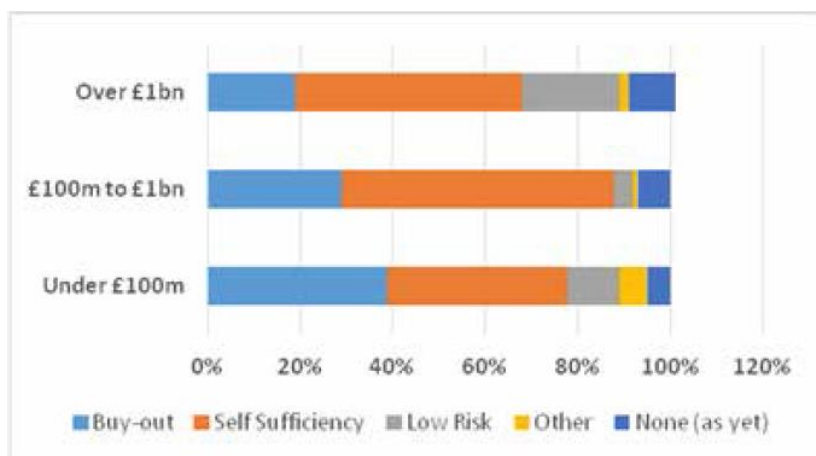
The extent of these impacts and the net position is highly uncertain. Throughout our engagement with TPR and the pensions industry, we have heard different views. Some views suggested that in some cases there is likely to have been insufficient prudence in the assessments of scheme funding position (which would imply a cost to business as a result of this legislation). On the other hand, we have heard some views, explicitly or implicitly, that in some cases there may be excessive prudence (for example, a publication by First Actuarial¹⁹² says that *there is plenty of prudence already in the system*). Due to this complexity and because at this stage the exact requirements are not known we do not quantify these impacts.

In any case, clearer requirements are expected to reduce the amount of time and resources schemes need to invest in understanding what is required from them.

2) A change in the scheme’s chosen investment strategy.

The proposed option will not require schemes to set a particular objective. It will only require schemes to have an objective, but it is for individual schemes to choose what is best for them. Existing evidence shows that many schemes are already considering different objectives depending on their scheme specific circumstances – see figure 1 below.

Figure 1. Distributions of long-term objectives by scheme sizes.



Source: Aon, Global Pensions Risk Survey 2017¹⁹³

¹⁹² First Actuarial Report- [Link](#)

¹⁹³ Aon Global Pension Risk Survey 2017- UK survey findings. [Link](#) page 6.

Once the requirement to set a long term funding and investment strategy is implemented, some schemes may need to revise their funding and investment strategies in order to achieve this destination. We expect that they will only choose a particular objective if, on balance, it is better than their second best alternative.

In the baseline, there is an option for schemes to not have an objective at all. Those schemes without an objective are implicitly taking one of the possible paths but this is not expressed explicitly and therefore not accounted for in scheme running decisions. After the proposed changes are implemented, when a long term funding and investment strategy is mandatory, those schemes will have to take account of their end goal in their scheme running decisions. On this basis, we expect a long term funding and investment strategy to lead to a better considered and fit for purpose funding and investment strategy which could potentially result in efficiency savings to the scheme. This would in turn benefit members as they are more likely to receive their benefits in full. We do not quantify this impact given the lack of evidence and level of uncertainty.

3.3 Indirect impact – potential company balance sheet and credit rating impacts.

As set out above, there may be some schemes that will see an increase in their estimated DB pension liability as a result of the proposed requirement for a long-term destination, together with proposals to define more clearly key terms such as “prudence” and “appropriateness” in secondary legislation. However, when it comes to company balance sheets, the overarching DB liability measurement standard is IAS19 – which is based on a standardised set of assumptions for schemes. We anticipate that this should not affect the IAS19 based deficits since it is based on standardised assumptions that are not likely to be affected by the changes.

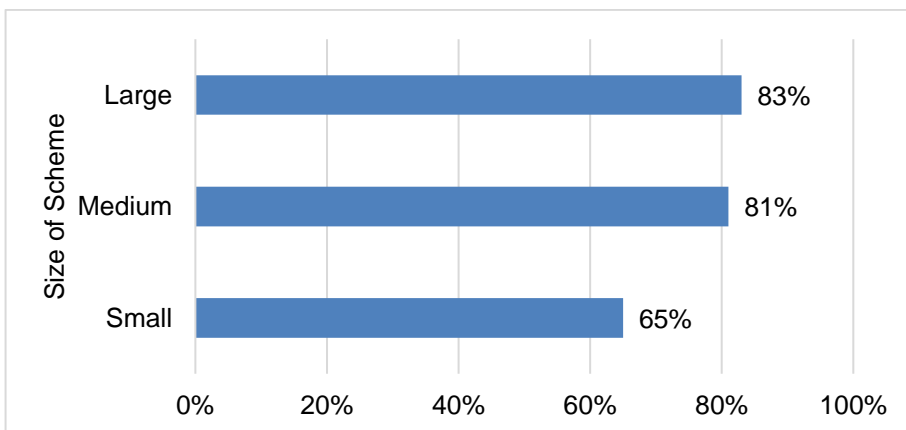
4. Costs and benefits to scheme members

There will be no costs to members as there will be no need for them to familiarise with the changes or implement them. The requirement is aimed and designed to improve scheme governance and decisions making, which in turn is intended to make scheme running more efficient, economically viable, and secure. Better scheme governance is anticipated to improve the security of members’ pensions – i.e. to increase the likelihood of members ending up getting their pensions paid in full. It is not deemed proportionate to monetise this benefit.

5. Small and Micro Business Assessment (SaMBA)

The costs to business fall on funded (private sector) DB pension schemes. As shown in the figure below, small and micro schemes are less likely to be compliant and as a result, are more likely to incur costs because of the proposed changes. In the case of DB schemes, these costs will be passed on to their sponsoring employers. Therefore, businesses that sponsor small schemes are more likely to incur a cost because of the proposed change. As such, it is possible that small and micro businesses that sponsor small DB pension schemes may be affected.

Figure 2: Proportion of trustees that reported having an aim for journey plan, by scheme size¹⁹⁴.



¹⁹⁴ [Defined benefit trust-based pension schemes research](#) summary report- page 24. [Link](#)
Small: 12-99 Members, Mid-sized: 100-999 Members and Large: 1000+ Members

Source: TPR Defined benefit trust-based pension schemes research summary report.

It is important to note that DB schemes are predominately of medium or large sizes. As shown in the table below, 36% of DB schemes have less than 100 members and are therefore considered to be small. The proposed changes are expected to have a disproportionate impact on small schemes, however, these schemes make up a smaller proportion of DB schemes in total.

Table 1: Estimated numbers of DB schemes split by size of scheme¹⁹⁵.

Size of Schemes (The number of members)	Estimated 2018 Universe
2-99	1,985
100-999	2,411
1,000-4,999	759
5,000-9,999	171
10,000+	198
All	5,524

However, assessing the impact of the proposed changes here on this group is difficult. As it is not necessarily the case that small and micro pension schemes correspond to small and micro businesses. For example, large firms may run a DB scheme with only a few members. Similarly, small employers may enter their staff into a large DB scheme (as it is possible for a DB scheme to be sponsored by more than one employer). As this legislation will affect schemes depending on their compliance with the requirements in the baseline and small schemes are less compliant it is likely that employers that sponsor small schemes are likely to be disproportionately affected. There is currently no robust evidence to link pension scheme size to employer size and so it is difficult to accurately assess the impact on small and micro businesses.

There is information in the Annual Survey of Hours and Earnings (ASHE) data set on the size of DB sponsoring employers with active members. This will only include those who are contributing to a DB pension so will exclude members who are in schemes closed for future accrual but it helps to provide an indication of the size of DB sponsoring employers. The table below shows the proportion of private sector and not for profit active DB members by employer size.

Table 2: Proportion of active DB members, by employer size¹⁹⁶

Size of Employers	Proportion of DB members¹⁹⁷
0	0%
1-9	2%
10-49	10%
50-99	4%
100-499	14%
500-999	9%
1000+	61%
All sizes	100%

This information above provides evidence that the majority (88%) of active DB members are employed at businesses with more than 50 employees. However, there is no information on the business sizes where there are no longer active members and this doesn't provide information about

¹⁹⁵ The Purple Book 2018- [Link](#) , page 12.

¹⁹⁶ Source: DWP estimates derived from ONS Annual Survey of Hours and Earnings (GB)

¹⁹⁷ Figures are rounded to the nearest 1%.

the size of the scheme that the members are in. But it does provide an indication that the majority of DB sponsoring employers are medium or large employers.

6. Monitoring and Evaluation

We will work with TPR and the industry in order to understand and review the post implementation impact.


Table 3: Estimated Direct Cost to Business

	Scheme Volumes	Cost ¹⁹⁸	How often?	Assumptions
Familiarisation (Central Estimate)	5,524	1,460,000	One-off	All trustees ¹⁹⁹ have to familiarise. Hourly wage of a trustee is £28.50. For those without an LTO or only an aspirational LTO it will take four hours to familiarise and transpose the regulations. Approximately 80% of schemes have an LTO. Arbitrarily assumed that 50% of those with an LTO have it as an explicit target. Those with an LTO as an explicit target only take 1 hour to familiarise.
Familiarisation (Lower Estimate)	5,524	910,000	One-off	All trustees have to familiarise. Hourly wage of a trustee is £28.50. For those without an LTO or only an aspirational LTO it will take four hours to familiarise and transpose the regulations. Approximately 80% of schemes have an LTO. Arbitrarily assumed all those with an LTO have it set as an explicit target. Those with an LTO as an explicit target only take 1 hour to familiarise.
Familiarisation (Upper Estimate)	5,524	2,020,000	One-off	All trustees have to familiarise. Hourly wage of a trustee is £28.50. For those without an LTO or only an aspirational LTO it will take four hours to familiarise and transpose the regulations. Approximately 80% of schemes have an LTO. Arbitrarily assumed that none of the schemes with an LTO have it as an explicit target. All have to do full four hours of familiarisation.

¹⁹⁸ Costs all rounded to the nearest 10,000.

¹⁹⁹ Used the average number of trustees (3.2) for this.

Annex G: Collective Money Purchase (CMP)

 Department for Work & Pensions		<h3>Impact Assessment (Bill Final)</h3>	
Title of measure		Introduction of legislative framework for Collective Money Purchase (CMP) occupational pension schemes	
Lead Department/Agency		Department for Work and Pensions	
Planned coming into force /implementation date		2020	
Origin (Domestic/EU/Regulator)		Domestic	
Policy lead		Julian Barker	
Lead analyst		Luke Montgomery	
Departmental Assessment		Self-certified	
Total Net Present Social Value (over 10 year period): Not provided	Equivalent Annual Net Direct Cost to Business (EANDCB) (over 10 year period): Not provided	Business Impact Status: Not quantified ²⁰⁰	
Summary - Intervention and impacts			
Policy Background – Issue – Rationale for Intervention – Intended Effects			
<p><u>Policy Background</u></p> <p>The existing UK workplace pensions legislative framework is, broadly speaking, binary in nature with employers enabled to offer only Defined Benefit (DB) and Defined Contribution (DC) occupational pension schemes. The two models place all the risks and associated costs – economic, financial, and longevity - with either the sponsoring employer (DB) or the individual member (DC). Following engagement with representatives from the pensions industry, and in particular a case that Royal Mail has presented, Government believes creating an option for the pensions industry to offer Collective Defined Contribution (CDC) occupational pensions could be beneficial to sponsoring businesses and individuals in certain cases. The legislative term for CDC is Collective Money Purchase (CMP), which will be the term used in this document. In CMP type schemes, these risks would be with the members but collectively shared between them.</p> <p><u>Rationale for intervention and intended effects</u></p> <p>The objective is to introduce more flexibility in occupational pension provision so that the pensions industry may offer a new type of occupational pension scheme that is:</p> <ul style="list-style-type: none"> • more sustainable for sponsoring businesses than a DB scheme; and • has the potential to give an income in retirement that is more predictable than is currently available to members of DC schemes who do not wish to purchase an annuity. <p>The rationale for intervention is to establish a secure regulatory framework within which the pensions industry can create CMP type pension schemes with adequate governance and safeguards in place for members and for employers.</p>			
Brief description of viable policy options considered (including alternatives to regulation)			

²⁰⁰ Outlined on page three and evaluated further in section 3 of this impact assessment.

Option 1: non-legislative:

Legislation currently on the statute book is insufficiently clear on where CMP schemes fit into the current pensions framework. This lack of clarity means employers see a clear risk that they might be liable for any shortfall in the funding needed to pay for the target benefits if the legislation does not state otherwise. Employers will not want to commit to this new pension arrangement if there is such a risk. Therefore, non-legislative options are not viable in making clear where CMP schemes fit into the current pensions framework.

Option 2: do nothing.

Our engagement with the pensions industry, and in particular the responses to the consultation *Delivering Collective Defined Contribution Pension Schemes*^{201,202}, demonstrates strong support from the industry for the legislative changes that would enable CMP type pension schemes to be created in the future. Based on the evidence and discussions to date, we believe that a well-designed CMP has the potential to offer a more predictable income in retirement for scheme members²⁰³ than for DC members who do not wish to purchase an annuity. It achieves this by pooling risks and smoothing pensions payments (for example softening the impacts during periods when investment returns are relatively low) whilst being more sustainable to sponsoring employers than DB. Doing nothing would mean the opportunity foregone and less choice and flexibility for both employers and workers.

Option 3 (the proposed option): introduce a legislative framework for Collective Money Purchase (CMP) pension schemes.

Introducing a legislative framework will enable the pensions industry to offer a new type of occupational pension (should any employer/scheme choose to do so). Following consultation and ongoing industry engagement, we believe that well-designed CMP has the potential to offer a more predictable income in retirement for scheme members than DC can offer for those who do not wish to purchase an annuity, whilst being more sustainable to sponsoring employers than DB.

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

In gross terms, businesses that choose to set up a CMP scheme will incur familiarisation, implementation, and scheme running costs. However, offering a CMP scheme will be optional. We expect that businesses will only choose to offer CMP type pension schemes if, on balance, it is more beneficial for them than their best alternative - i.e. the benefits outweigh the costs when compared against the counterfactual. **On this basis the proposal is classed as zero net cost to businesses.**

Where the counterfactual is DC, we do not envisage fundamental differences in direct costs to sponsoring businesses as in both DC and CMP all the risks and associated costs – economic, financial, and longevity - are with the members. However, CMP potentially offers more flexibility and stability for employees through shared risk. This might make CMP more attractive as part of

²⁰¹ The consultation document is published here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/756275/delivering-collective-defined-contribution-pension-schemes.pdf

²⁰² The consultation response document is published here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/786395/response-delivering-collective-defined-contribution-pension-schemes.pdf

²⁰³ Scheme member – a current or future pensioner.

an overall employee compensation package, and result in a more stable and motivated workforce, though we do not have any evidence to support this.

In the case of Royal Mail, the only business with clear plans to deliver CMP, we envisage that there will be higher initial costs of setting up a CMP scheme compared to a DC scheme (although we do not quantify these due to commercial sensitivity reasons). However, we also expect Royal Mail to experience wider benefits in terms of improved industrial relations. Although improved industrial relations for Royal Mail are difficult to quantify with enough confidence. However, given the size of their workforce it is conceivable that, relative to their DC counterfactual, this benefit could exceed the £5m per annum *de minimis* threshold.

Where the counterfactual is DB, savings to sponsoring businesses may be substantial and, dependent on the scope and size of the business, could be above the £5m EANDCB *de minimis* threshold – although we are unable to quantify this (for reasons outlined below). However, where DB commitments already exist they cannot be broken and CMP will not alter this at all; so any potential savings would only relate to new / future pensions accruals – for which businesses already have an alternative (in the form of DC) and strong financial incentives to pursue it. Hence the DB counterfactual may only be applicable in a very limited and specific way - *see more detail / discussion in section 2 and section 3.2 of this impact assessment.*

Due to the significant uncertainty over the full impacts of the proposal, the Department for Work and Pensions (DWP) has not quantified an Equivalent Annual Net Direct Cost to Business (EANDCB)²⁰⁴. Specifically:

- The costs and benefits depend on the counterfactual (whether a firm's employees would in future be enrolled in a DB scheme, a DC scheme or a hybrid DB/DC scheme) which is not possible to predict. Particularly in the case for DB employers, there are uncertainties as to whether they would switch to DC in the absence of CMP legislation.
- Consultation responses illustrated further interest in CMP amongst the wider pensions industry, but did not identify new plans to deliver CMP. Consequently, the potential take-up of CMPs from employers is currently an unknown with only the Royal Mail Group having clear plans to deliver CMP. Therefore, on the grounds of commercial sensitivity, we are not able to set out the direct impact to business.

Given the voluntary nature of this legislative change, we only expect businesses to incur any gross costs to create a CMP scheme if it were beneficial to do so compared to their next best alternative. As such, we assume this proposal to be zero net cost, as we are not able to quantify any potential net benefits.

At the regulation stage impact assessment, we will review whether the above uncertainties are still applicable, and seek to estimate the EANDCB if further data is available.

Departmental Policy signoff (SCS): Hilda Massey

Date: 13/06/19

Economist signoff (senior analyst): Joy Thompson

Date: 17/06/19

²⁰⁴ See section 3 of this impact assessment for more detail.

1. The policy issue and rationale for Government intervention

The existing UK workplace pensions legislative framework is, broadly speaking, binary in nature with employers enabled to offer only Defined Benefit (DB) and Defined Contribution (DC) schemes.

DB schemes offer greater certainty and predictability for income in retirement for employees, but place significant risks and costs on the sponsoring employer - economic, financial, and longevity. Conversely, DC schemes place similar risks and costs on the individual scheme member.

Following engagement with representatives from the pensions industry, and in particular a case that Royal Mail has presented, Government believes creating an option for the pensions industry to offer Collective Money Purchase (CMP) pensions could be beneficial to sponsoring businesses and individuals. In CMP schemes, the risks would be entirely with the members but shared between them collectively.

The objective is to introduce more flexibility in occupational pension provision so that the pensions industry may offer a new type of occupational pension scheme that is:

- more sustainable for sponsoring businesses than a DB scheme; and
- has the potential to give an income in retirement that is more predictable than is currently available to members of DC schemes who do not wish to purchase an annuity.

The rationale for intervention is to establish a secure regulatory framework within which the pensions industry can create CMP pension schemes with adequate governance and safeguards in place for members and for employers.

2. Preferred Option

Option 3 (the proposed option): introduce a legislative framework for Collective Money Purchase (CMP) pension schemes.

Introducing a permissive legislative framework will create a provision to enable the pensions industry to offer a new type of occupational pension. We believe that well-designed CMP has the potential to offer a more predictable income in retirement for scheme members than DC can offer without buying an annuity, and a retirement income that is on average expected to be significantly larger than a DC annuity (see section 5.1 below for more details), whilst being more sustainable to sponsoring

employers than DB. Current legislation is insufficiently clear on where CMP schemes fit into the current pensions framework. This legislation will:

- Amend parts of the Pension Schemes Act 1993 to create a new sub-set of money purchase benefits which will allow pooled pension arrangements (collective benefit pension schemes), and to define the nature and quality features of schemes which can provide them. The current definition of money purchase benefits provides for individual rather than pooled accumulation.
- Provide powers to flesh out the technical aspects of the new regime, for example how schemes with pooled benefits should undertake valuations of their assets and liabilities.
- Provide powers to apply (with necessary modifications) existing pensions legislation to enable the Pensions Regulator to register and oversee pooled schemes.

In a CMP scheme, financial contributions are invested in a collective fund. When the member retires, they are paid a pension based on their share of that collective fund. The value of this pension will be based on the total value of the pot, and will increase or decrease according to changes in investment performance or other risk factors. For example, the scheme may target an annual pension equivalent to 1/80th of an individual's annual salary per year of employment increased according to the Retail Prices Index (RPI) – but this value may increase each year by more or less than RPI, or may in extremis decrease, depending on the value of the total pension fund and expectations of future investment returns, longevity and other relevant factors. So in essence a CMP scheme will have a target pensions level it will be aiming to pay their members based on their contributions. However, unlike in DB, that target is not a promise and can be increased or decreased depending on social and economic outcomes (mainly investment returns and longevity).

As discussed in the Government's White Paper 'Protecting Defined Benefit Pensions'²⁰⁵, evidence shows that although the DB sector as a whole remains sustainable, the associated costs are high and higher than what was expected at the time the DB schemes were introduced (see section 3.2 of this IA for more detail). Currently, only 12% of all DB schemes (including hybrid schemes) are open to new members, down from 43% in 2006²⁰⁶. DB pensions are gradually being replaced with DC, where all the risk is concentrated with each individual member, making them more sustainable for the sponsoring employers but more risky and uncertain for the scheme members.

²⁰⁵ Protecting Defined Benefit Pension Schemes (White Paper). February 2018, Available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693655/protecting-defined-benefit-pension-schemes.pdf

²⁰⁶ Pension Protection Fund. 'Purple Book 2018', figure 3.3. Available at: https://www.ppf.co.uk/sites/default/files/file-2018-12/the_purple_book_web_dec_18_2.pdf

In CMP, the risks are placed with the members but unlike in DC they are pooled and shared among the members, thus allowing to smooth pensions provision out during different economic times. Also, CMP differs from the traditional DC schemes in that it does not produce an individual "pension pot", which members then have to decide how best to use for their retirement, but pays out a regular retirement income from the collective fund. Thus, whilst members are expected to be able to transfer out their share of the fund at any point before they start drawing a target pension, CMP schemes take the big central decision of pension freedoms out of retirement planning, and also much of the risk as members who stay in the scheme can rely on a regular, if variable, income throughout retirement.

A high level comparison of CMP against the existing forms of occupational pensions – DB and DC – is presented in table 1 below.

Table 1. A high level comparison of DB, DC and CMP key principles.

	DB	DC	CMP
Longevity risk	With the employer	With the members, individually	With the members, shared collectively
Investment risk	With the employer	With the members, individually	With the members, shared collectively
Pension level	Promised level ²⁰⁷	A function of individual pot and decumulation strategy	Target level ²⁰⁸

Any lack of clarity in the current legislation brings the risk that a future court might rule that what was thought to be a CMP was in fact DB. It is concerns about this point which has lead the DWP to believe that the Pension Schemes Act 2015 cannot be relied upon by employers and that we need fresh primary legislation to make the employer's lack of liability for deficits unambiguous.

3. Expected level of business impact

Alongside the *Delivering Collective Defined Contribution Pension Schemes* consultation, DWP produced a consultation stage impact assessment (IA)²⁰⁹. In this, DWP set out its intention to calculate an Equivalent Annual Net Direct Cost to Business (EANDCB) in the final stage IA. However, the consultation did not provide any further

²⁰⁷ Depends on salary and years of contribution only; does not depend on longevity outcomes and investment returns.

²⁰⁸ Not a promise, actual pensions can be higher or lower depending on investment and longevity outcomes and will be adjusted by a formula in the scheme rules so that liabilities match assets.

²⁰⁹ Available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/754329/impact-assessment-delivering-collective-defined-contribution-pension-schemes.pdf

evidence on which to estimate a counterfactual, or level of industry demand, and therefore we are not able to produce a robust EANDCB. Specifically:

- The costs and benefits depend on the counterfactual (whether a firm’s employees would in future be enrolled in a DB scheme, a DC scheme or a hybrid DB/DC scheme) which is not possible to predict. Particularly for DB employers, there are uncertainties as to whether they would switch to DC in the absence of CMP legislation. In any counterfactual all employers with eligible employees will be required to set up a workplace pension and automatically enrol eligible employees. We have good data on how many employers currently offer DB, DC, and hybrid schemes, but we do not know what employers will choose to do in the future in relation to their scheme choice for occupational pensions. We have seen a steady decline in the number of Pension Protection Fund (PPF) eligible schemes²¹⁰, and the number of active members in private sector DB schemes from 7,800 and 3.6m in 2006 to 5,450 and 1.3m in 2018 respectively²¹¹. Moreover, we have seen a significant shift in the DB landscape by the status of the scheme – see *table 2 below for more details*.
- Consultation responses²¹² illustrated further interest in CMP amongst the wider pensions industry, but did not identify new plans to deliver CMP. Consequently, the potential take-up of CMPs from employers is currently an unknown with only the Royal Mail Group having very clear plans to deliver CMP. Therefore, on the grounds of commercial sensitivity, we are unable to quantify any potential net direct cost to business.

Table 2. Distribution of private sector DB schemes by scheme status (including hybrid schemes)²¹³

Year/Percentage of Schemes	Open	Closed to New Members (CTNM)	Closed to Future Accruals (CTFA)	Winding up
2006	43%	44%	12%	1%
2018	12%	46%	41%	1%

As table 2 shows, of the 5,450 private sector DB schemes that remain, 87% of them (46% + 41%) are unavailable to new members, up from 56% (44% + 12%) in 2006.

²¹⁰ The PPF provides compensation to the members of certain DB occupational pension schemes and DB elements of hybrid schemes in the event of the sponsoring employer becoming insolvent and where benefits, at least equal to the level of compensation provided by the PPF, cannot be secured. For more details on eligibility see here: <https://www.ppf.co.uk/your-scheme-eligible>

²¹¹ Pension Protection Fund. 'Purple Book 2018'. Available at: https://www.ppf.co.uk/sites/default/files/file-2018-12/the_purple_book_web_dec_18_2.pdf

²¹² See footnotes 2 and 3

²¹³ Pension Protection Fund. 'Purple Book 2018', figure 3.3. Available at: https://www.ppf.co.uk/sites/default/files/file-2018-12/the_purple_book_web_dec_18_2.pdf

Therefore, there is a reasonable assumption that more DB schemes will close in future, although no data or official projections currently exist.

Therefore, DWP has not been able to produce a robust EANDCB. Given the voluntary nature of this legislative change, we only expect businesses to incur any gross costs to create a CMP scheme if it were beneficial to do so compared to their next best alternative. As such, we assume this proposal to be zero net cost, as we are not able to quantify any potential net benefits.

At the regulation stage impact assessment, we will review whether the above uncertainties are still applicable, and seek to estimate the EANDCB if further data is available.

At this stage we are only aware of Royal Mail as having developed plans to operate a CMP. For this impact assessment we assess the counterfactual for Royal Mail to be DC on the basis of the initial 2017 proposal for Royal Mail to move to a DC scheme²¹⁴, and subsequent agreement with the union to pursue a CMP option.

3.1 Costs to businesses

As above, costs to business will largely depend on the counterfactual. Whether in the absence of CMP the scheme would otherwise remain as a DB scheme (DB counterfactual), or whether the scheme would otherwise move to, or remain as a DC scheme (DC counterfactual).

DB counterfactual

Where the counterfactual is DB, we envisage there to be savings rather than costs to the employer – *see section 3.2 for more details*.

DC counterfactual

Where the counterfactual is DC, we do not envisage fundamental differences in direct costs to sponsoring businesses as in both DC and CMP all the risks and associated costs – economic, financial, and longevity - are with the members. Having said that, we acknowledge that there may be some differences, e.g. in CMP pension levels will need to be revalued more regularly, which may result in some differences in scheme running costs (e.g. actuarial), when compared against DC.

Whether the employer has enrolled their employees into a DB or DC or hybrid scheme, for those businesses that choose to set up a CMP scheme, there will be gross costs in terms of familiarisation, implementation and scheme running costs. However, we

²¹⁴ Royal Mail written evidence to Work and Pensions Select Committee
<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/collective-defined-contribution-pension-schemes/written/77717.html>

assume that businesses will only choose to offer CMP type pension if they expect the benefits to outweigh the costs when compared against their counterfactual.

Royal Mail case

In the case of Royal Mail, we assume that the counterfactual, in the absence of a CMP option, would be a move to a DC scheme as described above. As outlined above, we assume there will be higher initial costs of setting up a CMP scheme compared to a DC scheme (although we do not quantify these due to commercial sensitivity issues – as previously discussed). However, as offering a CMP scheme will be optional, we expect the business will only choose to offer a CMP type pension scheme if, on balance, it is more beneficial to them than their best alternative. Therefore, we assume that this is a zero net cost measure to Royal Mail.

3.2 Benefits to businesses

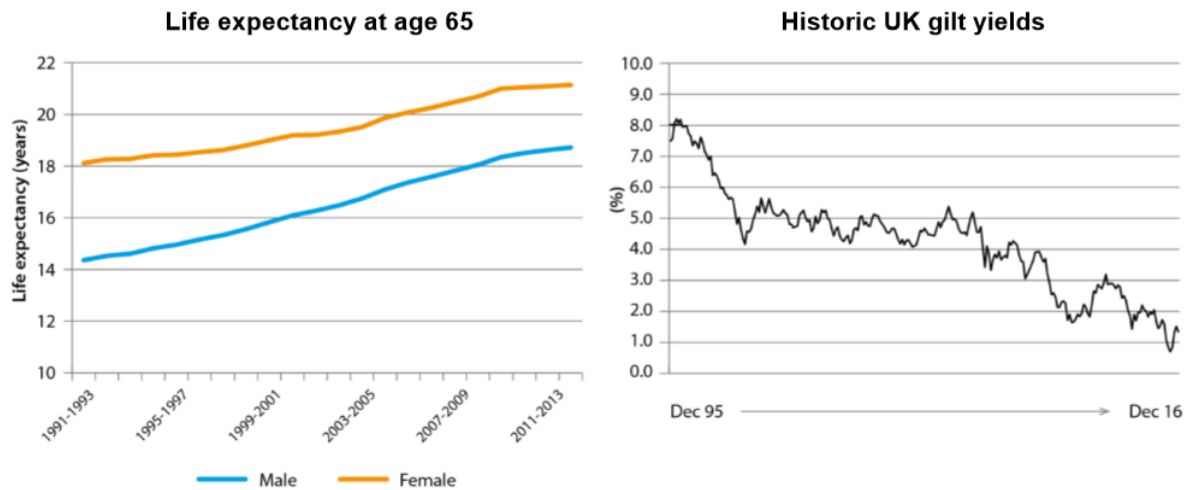
DB counterfactual

Where the counterfactual is DB, savings to sponsoring businesses may be substantial. New private sector DB schemes are no longer being created in practice. And where DB promises already exist employers cannot break them; however, they may choose to close their schemes to new members and/or future accruals. The introduction of CMPs will not alter this. However, in practice pension provision may be subject to negotiations between the employer and its workforce / labour union, and there may be situations where DC is not an acceptable alternative to DB for future accruals and / or new members but CMP is²¹⁵.

Evidence shows that although the DB sector as a whole remains sustainable, the associated costs are high and higher than what was expected at the time the DB schemes were introduced, with longevity growing faster than expected and investment returns staying low for a sustained period of time – see figure 1 below for illustration.

Figure 1. Social and economic environment over time

²¹⁵ For example, a situation discussed in this publication: <https://www.professionalpensions.com/professional-pensions/news/3025820/royal-mail-and-cwu-agree-to-introduce-uks-first-cdc-scheme>



Source (secondary): Security and Sustainability in Defined Benefit Pensions, 2017²¹⁶.

According to MQ5 data²¹⁷, over the calendar year 2017, sponsoring businesses of DB schemes paid normal contributions worth around £20.9 billion, and special contributions²¹⁸ worth around £15.7 billion, in total. Over the same time period, DC scheme sponsoring businesses paid about £5.3 billion of normal contributions, and about £0.13 billion of special contributions (and there are more DC than DB schemes, and the number of members is broadly similar).

DB sponsoring businesses may also incur indirect costs associated with the natural uncertainties arising from their commitment to sponsor a DB scheme. For example, any changes in life expectancy and/or investment return forecasts would alter their estimated DB pension liabilities and thus their balance sheets, making them more uncertain and volatile, and in turn potentially making their business less attractive to potential investors or creditors. Replacing DB with CMP would result in a saving in this sense as well. There is a strong financial incentive for DB sponsoring businesses to switch to CMP, but it is not possible to know how many of these would have switched to DC in the counterfactual scenario with no CMP option.

DC counterfactual

Where the counterfactual is DC, as discussed previously in section 3.1, we do not envisage fundamental differences in direct costs to sponsoring businesses so there are no anticipated savings to business in terms of lower pension scheme costs. It is possible that moving from DC to CMP would result in benefits to employers in terms

²¹⁶ Security and Sustainability in Defined Benefit Pensions (Green Paper). February 2017, Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693655/protecting-defined-benefit-pension-schemes.pdf

²¹⁷ Office for National Statistics. 'Investment by insurance companies, pension funds and trusts (MQ5)'. Table 4.3. 2018. Available at: <https://www.ons.gov.uk/economy/investmentpensionsandtrusts/datasets/mq5investmentbyinsurancecompaniespensionfundsandtrusts>

²¹⁸ In simple words, additional payments needed to sustain their schemes.

of improved employee retention, but we do not have any robust evidence to estimate this.

An occupational pension is part of an employee compensation package. More flexibility in its provision means that employers will be better able to optimise it given their individual circumstances and business strategies, potentially resulting in a more stable and motivated workforce.

Royal Mail case

In the case of Royal Mail, while there would be no expected direct benefit of a CMP compared to DC scheme as the contribution levels would be expected to be the same, there is a wider benefit for Royal Mail in terms of improved industrial relations comprising benefits to their business, their customers and their workforce.

It is not possible to quantify these impacts with enough confidence to score against an EACNB at this stage. Although to put this into context with regard to Royal Mail, over 65% of all 110,000 CWU members employed by Royal Mail voted in favour of industrial action over their decision to move their employees into a DC pension scheme, in addition to issues surrounding pay²¹⁹. However, following consultation and continued engagement by the department, CWU support the introduction of a CMP pension scheme for their members²²⁰.

Given the potential improvement in industrial relations as a result of Royal Mail introducing CMP pensions to their employees, relative to Royal Mail's large workforce, it is conceivable that their potential benefit is greater than £5m per annum. Therefore, as we cannot quantify the benefits to business to be less than £5m per annum, we cannot apply the *de minimis* exemption to this measure.

4. Key assumptions/sensitivities/risks

At this stage there is a significant uncertainty over the impact of the proposal.

The key uncertainties relate to:

- Estimating the counterfactual (in particular, whether DB employers would switch to DC in the absence of CMP legislation).
- Estimating demand for CMP schemes (at the time of writing only the Royal Mail scheme has confirmed interest. Though there is strong support from the wider industry which suggests more DB employers could come forward, we do not know whether there would be any employers interested in making the switch from DC to CMP).

²¹⁹ Out of the 110,000 CWU members who are employed by the Royal Mail Group, 89.1% voted in favour of the motion, with a turnout of 73.7%, resulting in 65.6% (73.7% * 89.1%) of CWU members employed by the Royal Mail Group voting in favour of industrial action. For more details, see here: <https://www.cwu.org/news/record-yes-vote-threshold-smashing-turnout/>

²²⁰ Available at: <https://www.cwu.org/news/cwu-royal-mail-welcome-cdc-pensions-green-light/>

- Estimating the benefits to employers (and members), which would be highly scheme specific and speculative.

5. Wider Impacts

Impacts on the affected parties other than businesses, and wider economic impacts are discussed below.

5.1 Wider impacts - impacts on members

Publications by the pensions industry offer mixed views but suggest that subject to being well designed there are potential benefits to members²²¹. For example, according to Willis Towers Watson, *with fixed contribution rates and the merits of collective long-term investing, CDC [CMP] schemes could offer attractive outcomes for both employers and employees. But a key challenge for CDC [CMP] design is the framework for the variable allocation of the assets to provide member pensions; from our work so far we believe a robust framework is achievable*²²².

5.1.1 Benefits to members.

Our assessment (in line with consultation responses) is that a CMP that is sufficiently well designed, run and regulated can provide a more stable outcome for members at a lower cost than individual DC. There are a number of reasons for this:

-Ability to smooth out shocks from the investment market to provide more stable pensions.

This is an inherent feature of CMP. The expectation is also supported by existing modelling-based evidence. For example, a study from the Netherlands ‘Benefits of Collective Risk Sharing in Defined Contribution Pension Systems’²²³, suggested ‘up to 15 per cent higher pension payments in ‘bad’ economic scenarios than the individual contract’. In contrast, however, the ability to smooth out shocks in ‘bad’ economic scenarios also means smoothing out in ‘strong’ economic scenarios too – see *section 5.1.2 for more details*.

-Ability for members to share their individual longevity risk with other members, so that they avoid the risks of either outliving their savings or being unnecessarily frugal with their savings.

This potential benefit arises from the concept of longevity pooling. Individuals cannot accurately predict how long they will live. Those who turn out to underestimate their life expectancy risk outliving their savings by withdrawing too much / too fast from their

²²¹ For more detail on the views of those in the pensions industry, please see the consultation response document (footnote 3).

²²² WTW Corporate and Trustee Briefing, 08 July 2018. Available at: <https://www.towerswatson.com/en-GB/Insights/Newsletters/Europe/UK-Corporate-and-Trustee-Briefing/2018/07/collective-defined-contribution-schemes>

²²³ By Marcel Lever and Thomas Michielsen, Sept 2014. Available at: https://www.netspar.nl/assets/uploads/P20161100_occ009_Lever_Michielsen.pdf

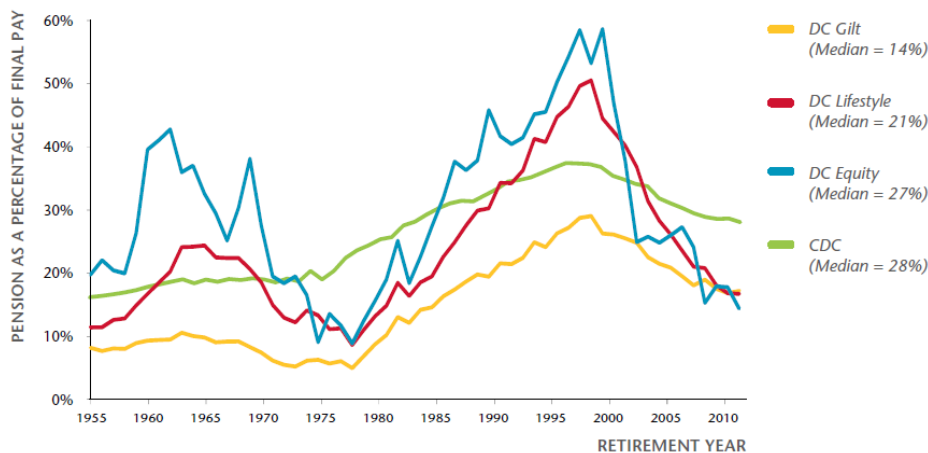
pot, and those who overestimate may end up underusing their pensions pot. However, pooling means that those who would otherwise be outliving their savings and those being unnecessarily frugal with their savings balance each other out, at least to some extent.

-Potentially higher pensions overall (but not for all).

The primary underlying theoretical reason for the potentially superior performance of CMP (compared against DC) is that CMP schemes can invest a high proportion in growth assets (e.g. equities) throughout their whole lifetime, whereas typical DC schemes tend to move into safer, lower-returning assets as the member approaches retirement. Also, de-risking in DC may mean purchasing annuities during ‘adverse’ times, e.g. when gilt yields are low; whereas in CMP, annuities are not necessary to provide a lifetime stream of pensions income.

AoN Hewitt have modelled the historic behaviour of an illustrative CMP plan compared with DC schemes over the period from 1930 to 2012. The outcomes of their modelling (Figure 2) suggest that over the period CMP reaches a better outcome than DC.

Figure 2 – Historic CMP [CDC] and DC outcomes



Source: AoN Hewitt, The Case for Collective DC, 2013 (page 31)²²⁴

Based on a different set of assumptions and approach, Cass Business School’s modelling²²⁵ suggested that a CMP scheme can generate a pension that is 30% higher, and volatility per unit of return in the CMP scheme is just 16% of that in the individual

²²⁴ Aon Hewitt. ‘The Case for Collective DC: A new opportunity for UK pensions’. (page 31). 2013. Available at: http://www.aon.com/unitedkingdom/attachments/aon_hewitt/dc/Aon_Hewitt_The_Case_for_Collective_DC_Nov13.pdf

²²⁵ Independent Review of Retirement Income: Report, David Blake, March 2016. Available at: <http://www.pensions-institute.org/IRRIReport.pdf>

DC scheme. An additional study from the Royal Society of Arts' study in 2012²²⁶ showed an improvement of 37% in pension outcomes from a move to collective pension provisions.

Moreover, a DWP commissioned a study²²⁷ by the Pensions Policy Institute (PPI), which compared a CMP scheme similar to that modelled by AoN with various individual DC alternatives, found that CMPs outperformed individual DCs in terms of the average income replacement rate in almost all the modelled scenarios.

The modelling outcomes depend on several assumptions, among them those associated with the design of the CMP plan. Also, investment behaviours are driven by a complex set of factors, and given that CMPs do not exist in the UK, the underlying modelling assumptions are theoretical and / or based on international evidence²²⁸. It is not possible to accurately predict outcomes for future UK CMP schemes, but the available modelling evidence suggests that CMP, if well-designed, has the potential to deliver a higher level of overall pensions than individual DC.

-Converting DC pots into an income stream for members without the high costs of guaranteeing income through an annuity.

Annuities are insurance policies which pay an annual income for life in exchange for a lump sum. DC members can use their pension pot (or part of it) to buy an annuity and have a guaranteed stream of income for their whole lifetime. But buying an annuity may be costly as the price has to cover not only the insurer's costs of providing it but also the insurer's premium and other fees. For example, Longevitas²²⁹ say that 'an insurer in the UK will typically charge around 5% more than it expects the annuity to cost'. In CMP, a lifetime stream of 'target' level pensions could be provided without the need for the member to buy annuity so CMP represents a potential efficiency saving.

"Hands off" access to a professionally managed investment strategy.

DC members have more discretion and responsibility for managing their pension strategies. Depending on individual preferences, some may consider this to be in their best interest but some may prefer "hands off" access to a professionally managed investment strategy, which CMP type schemes can offer. For example, the UK section of the 2013 AoN Hewitt Global Pension Risk survey received 241 responses, of which 46% mentioned 'members don't need to be involved in investment' when asked 'What

²²⁶ The RSA. 'Collective Pensions in the UK'. 2012. Available at: <https://www.thersa.org/discover/publications-and-articles/reports/collective-pensions-in-the-uk#>

²²⁷ Modelling Collective Defined Contribution Schemes, PPI, 2015. Available at: <http://www.pensionspolicyinstitute.org.uk/publications/reports/modelling-collective-defined-contribution-schemes>

²²⁸ For information on international examples of CDC please see Appendix One of the Pensions Policy Institute's report on "What is CDC and how might it work in the UK?". Available here: <https://www.pensionspolicyinstitute.org.uk/media/2904/20181129-what-is-cdc-and-how-might-it-work-in-the-uk-report.pdf>

²²⁹ Available at: <https://www.longevitas.co.uk/site/informationmatrix/areannuitiesexpensiveenough.html>

do you see as the biggest positives of Defined Ambition plans?'²³⁰. This was among the key arguments presented to DWP by the CWU for why their members support CMP.

5.1.2 Costs to members.

On an individual basis some members may incur costs associated with the introduction of CMPs. Where the counterfactual is DB, all members are expected to face greater uncertainty in their pension income under CMP given that all the risks and associated costs under CMP are with them rather than their employer. Where the counterfactual is DC, members may be worse off for the following reasons:

-Not all members will gain from CMPs.

Any collective scheme will smooth, to a certain extent, outcomes between members and outcomes over time. So whilst overall members might benefit, some may experience a worse outcome than under an individual DC. One reason for this is that a member could be due to retire in 'strong' economic conditions and potentially may have received a higher income from annuitizing (even after accounting for the high costs noted above) than under the smoothed CMP benefits. However, the risk of the member retiring in 'strong' economic conditions is placed solely on the member.

A further reason is that the member may die at a young age. This is an inevitable consequence of pooling risk and happens in both DB schemes and annuities where those that die young subsidise the pensions of those that live longer.

Again, it is important that members are communicated with in ways that ensure they understand the nature of the scheme they are in.

-Cases where there is an opportunity foregone for those that would rather have an individual DC.

A person's preference between an individual and collection pension not only depends on objective expected outcomes, such as income level and risk / volatility, but also their subjective preferences around risk aversion and, more generally, their lifetime utility function. For example, some members may want to take higher risk investment strategies, alternatively, others may want to invest in Environmental, Social and Governance (ESG) funds if this is not already undertaken by their scheme. Following a well-designed CMP framework, certain employers who currently offer a DC scheme to its employees may choose to offer a CMP scheme. Although this may be preferred by the majority of the members, they may be individuals that prefer a DC scheme but would no longer have that option. In this case then members would either have the option to potentially moving jobs to an employer that would still continue offering a DC scheme, transfer out of the CMP

²³⁰ Aon Hewitt. 'The Case for Collective DC: A new opportunity for UK pensions'. (page 11). 2013. Available at: http://www.aon.com/unitedkingdom/attachments/aon_hewitt/dc/Aon_Hewitt_The_Case_for_Collective_DC_Nov13.pdf

scheme itself or negotiate with their employer to contribute to a separate scheme, as is currently the case for members of occupational schemes that are not happy with their current pension arrangements. An example where this could occur is in a situation where, from the individual's point of view, there are undesirable transfers and subsidies, for example, from young to old or from poor to rich.

5.2 Wider impacts - intergenerational fairness

In principle, CMP plan design involves risk sharing, which is likely to occur both between the members of the same cohort and between different cohorts. Critics of CMPs often claim that they are inherently unfair towards younger generations as older people may have first call on the pooled fund to pay their pensions and workers may have to make up any shortfall with increased contributions. The main lesson to be learned from abroad is the Dutch experience. The Dutch regulatory system for CMPs requires a very high level of certainty that target benefits and inflation increases can be paid by prescribing large funding buffers. Slow growth in asset values means that when the buffers were expended in the financial crisis, they could only be restored through increased contributions from younger workers²³¹.

We believe it is possible to design a CMP scheme model to mitigate these risks. A possible solution, as presented to us by Royal Mail, could involve ensuring that: (a) adjustments to benefits are not perfectly smoothed, (b) that adjustments to benefits required by under or over funding take place frequently (e.g. annually), and (c) that all cohorts of members are treated the same when adjustments are made. This means no funding buffers, and no need for additional funding from younger members to pay out pensions to older workers. In that case it is highly likely that members would see more volatility year on year than in the Dutch system, but an initial analysis and advice provided to us by Royal Mail suggest that in almost all years pensions in payment, and target pensions for those yet to retire, could increase by inflation plus or minus 1 or 2%²³², per year.

Some other views from the pensions industry also seem to suggest the risk of intergenerational fairness is solvable. AoN Hewitt, for example, mention that *dealing with these issues of smoothing requires very careful communication to members and good actuarial processes*²³³.

CMP schemes will be required to have processes in place to ensure their members can understand that benefit levels will be regularly adjusted accordingly. We anticipate

²³¹ House of Commons: Work and Pensions Committee. 'Collective Defined Contribution Pensions: Sixteenth Report of Session 2017-19'. 2018. Available at: <https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/580/580.pdf>, page 22

²³² Based on internal debate and material provided to DWP by Royal Mail. To be treated as indicative and for illustrative purposes only.

²³³ Source: AoN Hewitt, The Case for Collective DC, Nov 2017. Available at: http://www.aon.com/unitedkingdom/attachments/aon_hewitt/dc/Aon_Hewitt_The_Case_for_Collective_DC_Nov13.pdf

that CMP schemes will make use of modern methods of communication, including social media and video to help ensure members can access the information they need to do this in the most appropriate way for them.

5.3 Wider impacts – wider economic and societal impacts

CMPs could bring investment benefits to the wider economy. As mentioned above, CMP schemes are expected to be able to invest (over their lifetimes) a greater proportion in acyclical, long-term returning assets than DC. These might include, for example, investing in infrastructure projects. However, investment choices and their impacts on wider economy are always complex and hard to assess / predict.

Additionally, the introduction of CMPs could allow for improved industrial relations between employers and their workforce and labour unions, particularly in the case of negotiations regarding pension provision, across the relevant workforces. In the case of Royal Mail specifically, this extends to improving industrial relations with up to 140,000 employees. As such, there is the potential for improved economic output to the wider economy – this is especially the case given the nature of postal services provided by Royal Mail. However, estimating the extent to this is beyond the scope of this Impact Assessment given its complexity.

5.4 Small and Micro Business Assessment (SaMBA)

There is no evidence of any disproportionate cost on small and micro businesses for this legislative change. This proposal creates the option for employers to enrol their employees into a CMP pension scheme. Therefore, businesses will only undertake the associated costs of enrolling their employees into a CMP scheme if they believe it to be beneficial for them to do so relative to the next best alternative.

Moreover, although all businesses will have the option to do this, we expect large employers to be more likely to undertake this option due to the advantages of economies of scale, the pooling of risk among a larger group of members and the greater the ability to undertake more long-term investment strategies. This opinion is supported by industry in the consultation responses.

6. Monitoring and evaluation plan

The proposed legislative framework will provide transparency about the operation and effectiveness of CMP schemes and will require the publication of certain scheme information. In addition, The Pensions Regulator (TPR) will collect and monitor data on CMP schemes in the same way as they currently do for occupational DB and DC schemes, looking at schemes, members and assets. DWP will monitor how the first CMP schemes operate and their performance and effectiveness at providing pension incomes, using this information.

The authorisation and supervision process will require schemes to set out and report on their on-going viability informed by their annual valuations and taking account of any requirements produced by the Institute and Faculty of Actuaries. This will allow an assessment of these schemes to provide the level of income they aspire to, to be made on an on-going basis.

In addition, we will engage proactively with employers, workforce representatives and schemes to identify any issues they are having around the new regime as it beds in, and seek views from schemes and TPR to provide assurance on the effectiveness of the authorisation framework. Investment and providing pension income is a long-term proposition and as such monitoring will be on-going.

The consultation responses clearly indicated that there was significant interest in offering other types of CMP pension products in the future. Those respondents were clear that lessons should be learned from the experience of the first CMP schemes and we intend to take that approach before extending legislation to facilitate other types of CMP scheme.

Annex H: The pensions dashboard

Title: Pension Dashboards Impact Assessment IA No: DWP-001-2019 RPC Reference No: RPC-4337(1)-DWP Lead department or agency: Department for Work and Pensions Other departments or agencies:	Impact Assessment (IA)
	Date: 05/02/2019
	Stage: Development/Options
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: Max.Levene@dwp.gsi.gov.uk
Summary: Intervention and Options	RPC Opinion: Green

Cost of Preferred (or more likely) Option (in 2016 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status
£m	£m	£m	Qualifying provision
<p>What is the problem under consideration? Why is Government intervention necessary?</p> <p>As a result of changes in the private pensions landscape, millions more individuals have started saving for a private pension (through automatic enrolment), increasingly pension scheme members will have multiple pension pots, and the responsibility for risk and decision-making is shifting from employers to individuals (long-term shift from Defined Benefit to Defined Contribution workplace pensions, and the new pension freedoms).</p> <p>Under the current system, information failures and behavioural biases mean that the costs for individuals to access their pension information is inefficiently high, meaning they may struggle to keep track of their pension pots and may make sub-optimal decisions in relation to both the accumulation and decumulation of pension wealth. Ultimately the risk is that individuals have poorer retirement outcomes.</p> <p>Government intervention is necessary to promote engagement with retirement planning (which can be considered a merit good), and solve the coordination problem in industry-led provision of pensions dashboards.</p>			

What are the policy objectives and the intended effects?

Develop a new pensions dashboard ecosystem to enable citizens to securely access their pensions information online, all in one place, and at a time of their choosing, to:

- Increase individual awareness and understanding of their pension information and possibly their estimated retirement income.
- Build a greater sense of individual control and ownership of pensions.
- Increase engagement, with more people (regardless of their pension wealth) taking advantage of the available advice or impartial guidance.
- Support the advice and guidance process by providing people with access to their pensions information at a time of their choosing, removing the need to search for this information during any advice and guidance session.
- Reconnect individuals with lost pots, benefitting the individual and industry.
- Enable more informed user choices in the decumulation phase (the point when a decision is made by a saver on how to access their savings) by making it easier to access the information on which to base these decisions.

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

Option 0: Do Nothing.

Without Government intervention we do not expect the market to establish a free, universal dashboard or other mechanism to provide individuals with a single, complete view of their pension information. In this case we would expect some individuals to continue to lose track of their pension pots, continued low levels of member engagement in pensions, and potentially sub-optimal decision making (in relation to the amount saved, scheme/investment choice, and decumulation decisions).

Option 1: Alternative to legislation.

The Government promotes and facilitates stakeholder co-ordination to develop an industry-led dashboard service online. Industry stakeholders could design a dashboard service, and then voluntarily provide their data to the dashboards, which will let people access their pension information in a single place online. This could include both private pensions and state pensions data.

Without legislation to compel providers to supply data, we would expect only partial coverage because some pension providers may rationally decide not to participate in any dashboard. This would undermine the objectives and limit benefits for members²³⁴.

Option 2: Government to legislate: (the preferred option).

Government supports the coordination of an industry-led dashboard, with new legislation to ensure that all eligible schemes participate within certain timescales. This will lead to the creation of dashboard service designed, developed and owned by industry, facilitated by Government, backed up by a compulsion for schemes to supply data to the dashboard ecosystem. This option is preferred as the only option that ensures dashboards work for everyone, providing a sufficiently complete picture within a reasonable timeframe while taxpayer costs are minimised.

The Government intends to take powers in primary legislation to require pension providers to provide information to the pension dashboard ecosystem. The specific design features of the dashboard system – e.g. implementation approach, data requirements, compliance and enforcement, etc. – will be set out in subsequent secondary legislation. At this stage, given the range of possibilities on the final design and implementation plan for dashboards, it would be disproportionate to provide a meaningful EANDCB estimate. Therefore the analysis presented here is intended only to provide indicative estimates of the possible scale of impacts. The impacts will be re-assessed and an EANDCB provided at the point of secondary legislation.

²³⁴ <https://www.gov.uk/Government/consultations/pensions-dashboards-feasibility-report-and-consultation/pensions-dashboards-working-together-for-the-consumer#chapter-5--meeting-the-users-needs>

Will the policy be reviewed? It will be reviewed. If applicable, set review date: N/A				
Does implementation go beyond minimum EU requirements?		N/A		
Are any of these organisations in scope?	Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)		Traded: N/	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:



Date:

6 February 2019

Summary: Analysis & Evidence Policy Option 0

Description: Do nothing – leave coordination and delivery of pensions dashboards to the market

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)			
			Low: Optional	High: Optional	Best Estimate:	
COSTS (£m)		Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant)	Total Cost (Present Value)		
Low	Optional		Optional	Optional		
High	Optional		Optional	Optional		
Best Estimate						
Description and scale of key monetised costs by ‘main affected groups’						
N/A						
Other key non-monetised costs by ‘main affected groups’						
<p>If the pensions industry decided to establish a dashboard service this would be purely voluntary and therefore business would only choose to do it if they deemed it to be in their interests to do so. Any associated costs would therefore be permissive.</p> <p>Assuming no dashboards were developed we would expect the long-term costs to consumers of sub-optimal retirement outcomes to continue, growing in line with Defined Contribution (DC) scheme memberships and assets, without any increase in engagement in retirement planning and decision-making.</p>						
BENEFITS (£m)		Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant)	Total Benefit (Present Value)		
Low	Optional		Optional	Optional		
High	Optional		Optional	Optional		
Best Estimate						
Description and scale of key monetised benefits by ‘main affected groups’						
N/A						
Other key non-monetised benefits by ‘main affected groups’						
N/A						
Key assumptions/sensitivities/risks				Discount rate		
Assumes the market will not invest in a solution that delivers universal, free, access to complete pension information.						

BUSINESS ASSESSMENT (Option 2)

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

Summary: Analysis & Evidence Policy Option 1

Description: Alternative to regulations – The Government promotes and facilitates stakeholder coordination to develop industry-led pensions dashboards

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate:
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant)		Total Cost (Present Value)
Low	Optional		Optional		Optional
High	Optional		Optional		Optional
Best Estimate					
Description and scale of key monetised costs by ‘main affected groups’					
N/A					
Other key non-monetised costs by ‘main affected groups’					
<p>There would be some costs to Government to facilitate industry engagement and coordination. If the pensions industry decided to establish a dashboard service this would be purely voluntary and therefore business would only choose to do it if they deemed it to be in their interests to do so. Any associated costs would therefore be permissive.</p> <p>Assuming dashboards were developed with incomplete coverage we would expect the long-term costs to consumers of sub-optimal retirement outcomes to continue, growing in line with DC scheme memberships, without any increase in engagement in retirement planning and decision-making.</p>					
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant)		Total Benefit (Present Value)
Low	Optional		Optional		Optional
High	Optional		Optional		Optional
Best Estimate					
Description and scale of key monetised benefits by ‘main affected groups’					
N/A					
Other key non-monetised benefits by ‘main affected groups’					
There may be some benefits to scheme members of those schemes who may choose to invest in supplying information to an industry dashboard, but these would be limited without complete coverage.					
Key assumptions/sensitivities/risks					Discount rate
Assumes the market will not invest in a solution that delivers universal, free, access to complete pension information.					

BUSINESS ASSESSMENT (Option 3)

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

Description: Introduce legislation to create an industry-wide dashboard or dashboards

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate:
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant)		Total Cost (Present Value)
Low	Optional		Optional		Optional
High	Optional		Optional		Optional
Best Estimate					
Description and scale of key monetised costs by ‘main affected groups’					
<ol style="list-style-type: none"> 1. Familiarisation costs – once the design and implementation plan is agreed, there will be costs for the pensions industry to familiarise with new requirements 2. Implementation costs – we expect material costs for pension schemes and providers to invest in new software/IT architecture to be able to provide data to the dashboard(s) 3. Ongoing costs – to provide data, ongoing governance, and regulatory compliance on an annual basis <p>Illustrative costs are provided for familiarisation costs (£2m in year 1 only), one-off implementation costs and ongoing costs under three scenarios with different data requirements and coverage to highlight the potential range of impacts on the pensions industry. Data cleansing is not included as a cost, as it is already a required under existing regulations.</p> <p>Under these scenarios (with no adjustment for the recommended phased implementation approach) estimated one-off implementation costs range from £200m to £580m over 10 years and ongoing costs range from £245m to £1.48bn over 10 years.</p>					
Other key non-monetised costs by ‘main affected groups’					
<ol style="list-style-type: none"> 4. New regulatory functions 5. Costs to Government of providing State Pension data to the dashboard 6. Although dashboards are intended to be free at the point of use, consumers may bear some indirect costs if industry pass on costs through higher scheme charges. 					
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant)		Total Benefit (Present Value)
Low	Optional		Optional		Optional
High	Optional		Optional		Optional
Best Estimate					
Description and scale of key monetised benefits by ‘main affected groups’					
N/A					
Other key non-monetised benefits by ‘main affected groups’					
<p>The primary direct benefit is for individuals, for whom the dashboard provides free information, saving consumers time and potentially the costs of paid financial advice. Some consumers may benefit from recovering lost pension pots. Where engagement with a dashboard leads to better retirement planning and decision-making, consumers may benefit from improved retirement outcomes (higher pension wealth to convert to income, and better use of available wealth through retirement).</p> <p>There may be some benefits to the pensions industry if the dashboard leads to less contact from members looking to retrieve their information (e.g. fewer customer telephone calls), or increased demand for transfers, consolidation or decumulation products.</p> <p>If the dashboard led to higher engagement and increased pension saving this would increase revenue for providers, but behavioural effects are highly uncertain.</p>					
Key assumptions/sensitivities/risks					

There is significant uncertainty of the regulatory impact given the work to be done by the industry delivery group to agree the final design, data standards and requirements, implementation plan, and compliance regime.

At this stage there is too much uncertainty and insufficient evidence to produce a robust EANDCB estimate. These impacts will be further assessed and an EANDCB provided at the point of secondary legislation.

The illustrative scenario estimates assume:

- Dashboard 'onboarding' starts in 2019, with no adjustment made for phased implementation (which would alter the profile of industry costs)
- Data requirements mirror those currently required in the Annual Benefit Statement under the first two scenarios
- Providers only need to update information annually
- Schemes with over 100,000 members will update their own software to connect to the dashboard ecosystem, schemes with 99-99,999 members will use a pension administrator to connect, and schemes with <99 members will use an integrated service provider

Behavioural effects are uncertain given that the product is untested in the UK context, and complete information may be a necessary but insufficient condition for better retirement planning and outcomes.

BUSINESS ASSESSMENT (Option 4)

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

Evidence Base (for summary sheets)

Problem under consideration

1. During working age, the majority of individuals will:
 - build up entitlement to the new State Pension,
 - accumulate private pension wealth through workplace pensions arranged by the employers they work for,
 - and may have additional saving through personal pensions (or other forms of wealth).

2. In order to plan for retirement, individuals need to make a number of decisions, including:
 - how much to save for the retirement they want, and potentially decisions about investment strategy etc.,
 - when to retire,
 - when to claim their State Pension,
 - and when/how to access their wealth to provide retirement income.

3. These decisions are very long term, can be complex, and involve significant uncertainty (particularly given longevity risk, inflation risk, and investment risk). In making these decisions individuals have incomplete information and a number of behavioural biases may lead to sub-optimal decisions (typically not saving enough for retirement, or being under/over optimistic about risk which leads to sub-optimal use of wealth in retirement). This is not a new problem, but there are two important factors in the UK context which increase the potential risk to individual retirement incomes:
 - a) As a result of automatic enrolment, over 9.9 million additional individuals²³⁵ have been automatically enrolled into a workplace pension, typically into a Defined Contribution (DC) scheme where the employer pays a contribution but the individual bears the risk (e.g. of receiving a poor return on savings). This significant growth in the number of DC members follows a longer-term shift away from Defined Benefit (DB) schemes (where the risk is borne by the employer). As individuals move through the labour market, they may build up multiple private pension pots depending on how many jobs they have over their lifetime. Therefore, in the future more individuals will have a greater number of DC pensions contributing to their overall pension pot.
 - b) The pension freedoms introduced in 2015 mean that individuals with a DC pension pot are now responsible for decisions over how to use their pension wealth from the age of 55. This gives individuals much greater freedom and choice, but requires them to take more complex decisions than previously would have been the case when they typically would have used their pension pot to buy an annuity. Since more individuals will have DC pots in the future, this means that more individuals will need make complex decisions about how to access their pension wealth.

4. Under the current pensions landscape all DC members and some (*active, public sector*) DB members should receive an (paper) Annual Benefits Statement (ABS) for each

²³⁵ <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis>

individual membership, but the onus is typically on the individual to tell their scheme of any change in contact details²³⁶. Since 2016 individuals have been able to use Check Your State Pension to forecast their future State Pension entitlement. Since launch, this service has been used over 10 million times²³⁷. But currently it is not possible for individuals to access all of their pension information in one place. Therefore, many people may lose track of their pension pots over time, and/or may struggle to effectively plan for retirement. The Government does currently fund the Pension Tracing Service (PTS)²³⁸ which is a free service to help individuals trace their pension, but this service only provides individuals with contact details for pension schemes they may have paid into, still necessitating individuals to spend time contacting those schemes and retrieving their information, and not making it possible to access all their information in one place.

5. Research shows the difficulty individuals have with accessing and understanding information on their pension savings. FCA's Financial Advice Market Review²³⁹ finds that people often find it difficult to access their data from financial institutions. Pensions Dashboard research also highlighted that many individuals have low understanding of their own pension information²⁴⁰.
6. The consequence of this is low levels of knowledge, engagement, and feelings of ownership with pension savings. This creates risks of individuals making poor decisions in the accumulation (saving) and decumulation (consumption) stages of their retirement saving. A quarter of people aged 55 and over who are not retired say they do not know the size of their pension savings, while 8 in 10 people with a DC pension have not given much thought to how much they should be paying into it to maintain a reasonable standard of living when they retire²⁴¹. There are low rates of individuals seeking advice and guidance, even when it is in their interest to do so²⁴². According to Experian, an estimated £400 million in pensions or other life insurance products is currently left unclaimed²⁴³.
7. Better access to complete information on pensions should enable consumers to keep track of multiple pension pots, and better understand how much money they will have in retirement, which should help them to make better decisions about retirement saving and use of wealth in retirement.

Rationale for intervention

8. Whilst there are some incentives for pension schemes and providers to improve access to accurate information for members, evidence suggests that the market will not deliver complete information without intervention.

²³⁶ <https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes/scheme-management/communicating-to-members>

²³⁷ <https://www.yourpension.gov.uk/10-million-state-pension-forecasts/>

²³⁸ Individuals enter their former employers' details into the online database and are provided with contact details for pension schemes they may have paid into. <https://www.gov.uk/find-pension-contact-details>

²³⁹ <https://www.fca.org.uk/publication/corporate/famr-final-report.pdf>

²⁴⁰

https://masassets.blob.core.windows.net/cms/files/000/000/837/original/Final_2CV_report_MAS_branded_for_website__23.10.2017.pdf

²⁴¹ <https://www.fca.org.uk/publication/data/data-bulletin-issue-12.pdf>

²⁴² The Money Advice Service, Pensions dashboard research, September 2017

²⁴³ Email received from financial institution.

9. Complete information on pension saving can be considered as a merit good, in the sense that information failures mean that it has greater benefits for a given individual than that individual realises. Those information failures, driven by behavioural biases and perceived difficulty in understanding the pension system, mean that individuals under-value the benefits of retirement planning, and by extension the value of access to a complete picture on pension saving. As a consequence, there is little consumer demand and therefore an inefficiently low level of provision of this service. This suggests that intervention is justified to correct for this market failure and promote the consumption of this good, and with it engagement in retirement planning.
10. There is also a coordination problem present. Research suggests that the positive benefits of the dashboard are only realised when there is sufficiently high participation by industry to provide a complete picture to consumers^[1]. However, there are reasons why without Government intervention it would be difficult to coordinate to achieve such participation. For example, there will be cases where pension providers have insufficient incentive to make the required investments: whilst there are potential benefits/ efficiency gains to pension providers if consumers are encouraged to keep track of their pensions, save more, consolidate, and shop around for decumulation products, many schemes are closed to new members and relatively few providers are active in the decumulation market. Many schemes therefore may face net costs in providing information to their members via dashboards, and rationally decide not to make the required investments.
11. Furthermore, even if each pension provider would privately benefit if industry collectively provides complete information, individual providers may rationally decide not to participate if there was a risk that other providers would not make the required investments, as this would mean the potential benefits would not materialise. This suggests Government intervention may be necessary to solve this problem.

Policy Objective

12. The overarching aim is to enable citizens to securely access their pensions information online, all in one place, and at a time of their choosing, to support better planning and preparation for retirement.
13. The policy objectives outlined in the consultation document²⁴⁴ are to:
 - Increase individual awareness and understanding of their pension information and estimated retirement income, in order to support better planning for retirement.
 - Build a greater sense of individual control and ownership of pensions.
 - Increase engagement, with more people (regardless of their pension wealth) taking advantage of the available advice and impartial guidance.
 - Support the advice and guidance process by providing people with access to their pensions information at a time of their choosing, removing the need to search for this information during any advice and guidance session.

^[1] Chapter 3, <https://www.gov.uk/Government/consultations/pensions-dashboards-feasibility-report-and-consultation/pensions-dashboards-working-together-for-the-consumer#chapter-3--building-the-evidence>

²⁴⁴ <https://www.gov.uk/Government/consultations/pensions-dashboards-feasibility-report-and-consultation>

- Reconnect individuals with lost pots, benefitting the individual and industry.
- Enable more informed user choices in the decumulation phase (the point when a decision is made by a saver on how to access their savings) by making it easier to access the information on which to base these decisions.

Description of options considered

Option 0: Do nothing – Government leaves provision of individual pension information to the market

14. This is the status quo, in which the market has not (yet) provided a solution that meets the policy objectives. It is possible in future that parts of the pensions industry come together to collaborate and build one or more dashboard ecosystems, each connecting to information from different sets of providers. This could deliver effective information to consumers, or could lead to confusion and a fragmented consumer journey, with limited benefits to members. The Government has been actively working with the pensions industry to explore the feasibility of a dashboard, and little progress has been made in the absence of legislation. Given the fragmented nature of the industry with around 40,000 pension schemes, thousands of providers, administrators, trustees, and employee benefit consultants, with no single point of leadership/authority, there seems limited scope for an industry-wide dashboard ecosystem in the absence of Government intervention. Furthermore, to provide complete access to information any dashboard should include State Pension data which would be dependent on appropriate governance and security measures. In this scenario it is likely that State Pension data would continue to be provided separately, via the existing Check Your State Pension (CYSP) service.

Option 1: Alternative to legislation – Government acting to coordinate industry

15. The Government could help promote and facilitate the coordination of an industry-led dashboard service online, which will let people access their pension information in a single place. This could include both private pensions and State Pension data.
16. Whilst this option would build on the do nothing option by addressing the coordination problem, without compulsion for pension providers to connect to the dashboard ecosystem and provide data the likely outcome is that any resulting dashboard would provide only partial coverage and would not meet the policy objectives. User research and international evidence²⁴⁵ suggests that achieving sufficient coverage so that users will be able to see all their pension information in one place is key to successful delivery. Dependent on the governance and security measures, it may not be appropriate for Government to supply State Pension data, so we would expect under this option for CYSP to be kept separate from an industry dashboard.

Option 2: Establish an industry-led dashboard, with new legislation to ensure that all eligible schemes participate within certain timescales

17. Under this option the Government acts to bring together stakeholders to coordinate an industry-led delivery of dashboard(s). As outlined in the consultation document, the Government intends that the Single Financial Guidance Body (SFGB) should

²⁴⁵ Chapter 3, <https://www.gov.uk/Government/consultations/pensions-dashboards-feasibility-report-and-consultation/pensions-dashboards-working-together-for-the-consumer#chapter-3--building-the-evidence>

bring together an industry delivery group to lead the design and the implementation of the dashboard eco system. This delivery group, with representation from across industry, consumer bodies, regulators and Government, will lead the design and implementation of dashboards. This will draw on proposals for a candidate architecture (the dashboard ecosystem) and governance arrangements set out in the consultation to determine the final dashboard architecture and infrastructure. The industry delivery group will need to develop data standards, technical solutions and put forward an implementation plan. This will help to inform the Government's approach to more detailed provisions involving secondary legislation. The precise data standards and timescales for a proposed staged implementation (among other details) are not yet known.

18. Government will introduce legislation to compel pension providers to make certain data available to members via dashboards. Primary legislation will introduce necessary powers. Subsequent secondary legislation will specify the design and implementation decisions taken by the new industry delivery group, and establish a regulatory framework to implement appropriate and robust controls to protect users.
19. With a more active role for Government in ensuring the dashboard ecosystem has robust governance and security measures this option will allow State Pension data to be provided as part of the dashboard.
20. Government has worked with industry on a feasibility study and consultation, and concluded that Option 2 is the preferred option since this is the only option that will meet the policy objectives.
21. The Department's user research built on the Pension Dashboard Project's recommendation that 'a non-commercial service, endorsed by the Government, must be made available'²⁴⁶. The research found that people tended to show a preference for a single, Government-sponsored dashboard citing key reasons such as data security, trust and commercial bias. It found some people, however, may prefer to use their own dashboard provider (possibly a bank or large pension provider) due to higher levels of familiarity and trust.

Costs and benefits

22. This impact assessment accompanies primary legislation which provides powers to compel pension providers to make data available to members via a dashboard. The outputs from the industry delivery group will inform subsequent secondary legislation.
23. At this stage, given the range of possibilities on the final design and implementation plan for dashboards it would be disproportionate to provide a meaningful EANDCB estimate. Therefore, the analysis presented here is intended only to provide indicative estimates of the possible scale of impacts. The approach taken is to consider alternative scenarios focused on key areas of uncertainty to demonstrate the mechanisms through which a dashboard will lead to costs and benefits for different groups.

²⁴⁶ Pensions Dashboard Project, Reconnecting People With Their Pensions, October 2017: <https://pensionsdashboardproject.uk/industry/reconnecting-people-with-their-pensions/>

24. The inclusion of representatives from industry, consumers, and Government in the industry delivery group will ensure that needs are met, while ensuring that costs to industry are well understood and minimised.
25. This impact assessment will be reviewed and updated with input from the industry delivery group and industry stakeholders to provide further analysis to support subsequent secondary legislation.
26. The impact of this policy on the pensions industry will depend on the following decisions:
 - a) Data standards – for example, the specific information providers must supply, the timeliness of this data, format of data, and technical standards that enable systems to communicate with the dashboard ecosystem.
 - b) Scheme exemptions – the Government will consider the case for scheme exemptions. For example, any pension schemes whose members are demonstrably less likely to need a dashboard. This would significantly affect the number of schemes that need to connect to dashboards, which is a key determinant of industry costs.
 - c) Implementation plan and timetable – the consultation discussed several options for implementation, recommending a phased approach (similar to that taken for automatic enrolment) to gradually introduce compulsion to pension providers. The specific timetable for delivery will also affect the profile of costs and benefits.
 - d) Regulatory framework – Government intends to use the existing regulatory framework as far as possible, but recognises that new activities may be identified that are not covered by existing regulation.
 - e) Responsibility for regulatory functions
 - f) Funding model – the Government intends the dashboard ecosystem, governance, development of non-commercial dashboard and any new regulatory activities to be funded by industry, possibly through an industry levy but the mechanism is to be decided.
27. In order to assess the potential range of impact on industry, DWP has used formal consultation and informal engagement with the pensions industry to seek advice on the costs and benefits associated with dashboards. This engagement has included pension providers and schemes of all sizes, industry bodies, large administrative software firms, public sector pension providers, the Pensions Regulator (TPR) and the Financial Conduct Authority (FCA). Given the uncertainty of final design and implementation requirements the majority of stakeholders did not feel able to provide cost estimates. We will continue to engage with industry stakeholders to improve the quality of our evidence base for secondary legislation stage. Those estimates we did receive were heavily caveated as rough estimates based on strong assumptions about the final design. We have not received any responses from small or micro pension schemes, or the industry bodies representing them, so for these schemes we rely on responses from software providers who may provide services to these schemes. Furthermore, we do not currently know how the population of small and micro schemes are associated with business size, e.g. it is unclear how many micro schemes will be sponsored by large employers. This is an area we intend to

investigate further to better understand the impact on business, and to inform any decisions around exemptions made in secondary legislation.

28. The costs to Government of providing State Pension data to the dashboard ecosystem, and the cost to the SFGB to host a non-commercial dashboard will also depend on detailed design requirements and implementation plan.

Consumers

29. The main purpose of dashboards is to provide benefits to scheme members who will be able to access all of their pensions information (including the State Pension) in one place at the time of their choosing. There are no direct costs to consumers as they will not be required to pay to access, and use of dashboards is entirely voluntary.

30. The direct benefits to consumers are as follows:

- Time savings (reduced search costs equivalent to the value of their own time, or for those who engage financial advisors the value of time advisors spend retrieving information on their behalf). The value of time saved will depend on the number of individuals who use the dashboard, estimates of the time taken to access information on the dashboard compared to the counterfactual of finding the information themselves or engaging a financial adviser.
- Recovering 'lost pots'. The concept of 'lost' pensions has multiple definitions, at one end of the scale there is an estimated £19.4 billion²⁴⁷ in pots that have been "lost" (i.e. the provider / administrator has lost contact with the member) but only £400 million²⁴⁸ described as 'lost' in terms of unclaimed assets (those which should have been paid out but for some reason have been left unclaimed). Dashboards will help link providers and members. The obvious value for members who find lost pots is any additional retirement income they receive as a result, though in practice for many individuals the benefit will be in time saved finding lost pots, and the value of better decisions taken as a result of a more complete understanding of their pension provision. The value of recovering lost pots will depend on the level of take up amongst members, since pots can only be found for individuals who engage with the dashboard.

31. In theory there are potentially significant indirect benefits to individuals on the basis that information failure currently prevents individuals from saving enough for the retirement they want and/or making optimal decisions about how to use their pension wealth in retirement. Dashboards reflect principles of influencing behaviour as set out in the EAST (easy, accessible, social, timely) framework²⁴⁹. Arguably the dashboard is a necessary but not sufficient condition, and there is no robust evidence to attach causality and monetise the benefits in terms of increased retirement income that results from the dashboard. However, given the number of pension scheme members and value of total assets in DC schemes (both of which are expected to grow as a result of AE), such benefits could be material for millions of individuals in the long term.

²⁴⁷ Lost Pensions: what's the scale and impact? PPI Briefing note Number 109,

<https://www.abi.org.uk/globalassets/files/publications/public/its/2018/20181010-ppi-bn109---lost-pensions-final.pdf>

²⁴⁸ Email received from industry stakeholder

²⁴⁹ The Behavioural Insights Team (2014) *EAST: Four Simple Ways to Apply Behavioural Insights*. Available here:

<https://www.behaviouralinsights.co.uk/publications/east-four-simple-ways-to-apply-behavioural-insights/>

32. In terms of assumed dashboard usage, the Pension Tracing Service (which has limited publicity) supported 1.2 million customer traces in 2017/18²⁵⁰, whilst CYSP has had over 10 million uses since its launch in 2016. This is a small proportion of the total population of 53m members²⁵¹. We would expect higher take up of the dashboard as an improved service offer, and over time with growing number of pension members with multiple pots.
33. There may also be some interaction with the financial advice market. On the one hand, if it is easier for individuals to find information without advice then individuals could see cost savings (with correspondingly lower IFA revenue). On the other, if the dashboard acts as a springboard which encourages individuals to seek financial advice, this could improve retirement incomes if more consumers take advice which leads to improved individual outcomes (and would act to increase IFA revenue). A report by the International Longevity Centre²⁵² showed that those who had received financial advice between 2001 to 2007 had accumulated between 16% (if the individual is 'financially just getting by') and 21% (if the individual is 'affluent') more, on average, by 2012 to 2014 than someone who had not received financial advice. At this stage we have no evidence on the proportion of dashboard users who may reduce/increase demand for financial advice as a result of the dashboard.

Pensions Industry

34. Introducing legislation to compel pensions schemes and providers to provide data to the dashboard ecosystem will impose new regulatory burden on the pensions industry.
35. Key direct costs are as follows:
- Familiarisation costs – all schemes in scope will incur familiarisation costs. There are an estimated 40,690 schemes in the market, 40,272 of which are in the private sector. Assuming two trustees of each scheme need to familiarise with the new legislation, through one hour of time each, valued at £22.44²⁵³, and after a 27% uplift for overheads (as in the Green Book) we estimate that there will be a one-off cost in year 1 of £2,295,407 for all schemes to do this.
 - Providing data to the dashboard ecosystem involves a number of component costs:
 - a. Ensuring data is accurate, cleansed where necessary, digitised, calculated and in an appropriate format (for example, national insurance number and value of the pension pot) to ensure individuals are linked to correct data

²⁵⁰ <https://www.gov.uk/performance/find-pension-contact-details/transactions-by-channel#from=2017-04-01T00:00:00Z&to=2018-03-01T00:00:00Z>

²⁵¹ Internal analysis of data extract received from TPR January 2018

²⁵² <https://ilcuk.org.uk/new-research-finds-those-who-receive-financial-advice-are-on-average-40000-better-off-than-their-unadvised-peers/>

²⁵³ ASHE 2017 (revised) – table 2.5a – median from professional to corporate managers and directors: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation2digitsocashetable2>

- b. Connecting to dashboards and enabling data to be accessed via dashboards
- c. Ongoing provision of data in line with data standards to be determined. For now we assume that data requirements will mirror that required in an annual benefit statement, data will be updated annually, and data standard will be consistent with those already required by TPR. More frequent data, or additional data would naturally be expected to incur higher costs.

For these costs we consider three different scenarios for dashboards

1. Dashboard information equivalent to ABS, with small schemes (with fewer than 12 members) exempt. This would exempt 30,000 schemes, which is 75% of total schemes, but accounting for less than 0.2% of total membership²⁵⁴.
2. Dashboard information equivalent to ABS, but no schemes exempt (significantly increasing the scope of costs).
3. Dashboard contain more information than supplied on an ABS, e.g. projections of likely retirement income at different retirement ages, data on investment approach, performance and charges (significantly increasing the scope of costs).

Scenario 1 (central assumption, micro schemes exempt)

36. Evidence from engagement with industry stakeholders suggests the way schemes connect to the dashboard ecosystem, and associated costs, varies by scheme size. We assume large and medium pension providers and administrators will either invest in new systems or upgrade existing systems in order to connect, which incurs IT costs to integrate with the dashboard system and establish an Application Programming Interface (API) which allows an external system such as a dashboard to access data held by schemes. We assume small schemes (12-99 members) will integrate to the dashboard ecosystem using contracted relationships with ISPs.

37. The assumptions and implementation cost estimates by scheme size are summarised in Table 1

Table 1 – Implementation cost estimates and assumptions for private sector schemes, split by pension scheme size				
Scheme Size	No. of schemes	Cost assumptions	Evidence	Estimate

²⁵⁴ Internal analysis of data extract received from TPR January 2018

Large (over 100,000 members)	61 ²⁵⁵	<p>Manage their own administration and individually connect directly to dashboards.</p> <p>Costs include changes to IT systems and establishing connection to dashboard ecosystem.</p>	<p>Estimate is the average of four responses to a survey by DWP Digital. Tested with some of the largest providers which suggested £200,000 was plausible, but highly uncertain.</p>	<p>£200,000 per scheme, £12m in total</p> <p>Applying 50% sensitivity adjustment gives a range of £6m to £18m.</p>
Medium (100 – 99,999 members)	<p>3,992 schemes</p> <p>480 administrators</p>	<p>Connect through external administrator, with costs split between the administrator and the scheme.</p> <p>Multiple schemes will use the same administrator.</p> <p>Total costs include costs per scheme to prepare data, cost fee per administrator to connect to the dashboard (only incurred for each administrative software connected)</p>	<p>Indicative per scheme costs of £75,000 for data preparation supplied by one large administrative software provider</p> <p>Discussion with pension administrators who cover a large share of the market suggests setting up an API to establish a link would be around £100,000 per package.</p>	<p>£75,000 per scheme, £299m in total.</p> <p>Applying 50% sensitivity adjustment gives a range of £150m to £449m.</p> <p>£100,000 per administrator, £48m in total.</p> <p>Applying 20% sensitivity adjustment gives a range of £38m to £58m.</p> <p>Total costs associated with medium schemes range from £188m to £507m.</p>
Small	3,031 schemes	Integrate using contracted	Discussions with a large administration software	£10,000 per scheme, £30m in total.

²⁵⁵ Internal analysis of a data extract from TPR, received in January 2018

(12-99 members)		<p>relationships with ISPs.</p> <p>Five ISPs will cover the whole market.</p>	<p>provider suggest a basic package would cost £10,000.</p> <p>This estimate is highly uncertain.</p> <p>Discussions with industry stakeholders and large administration software providers.</p>	<p>Applying 90% sensitivity adjustment gives a range of £3m to £58m</p>
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38. These estimates make a simplifying assumption that all schemes are required to comply with the legislation at the same time. In practice, the implementation plan adopted by the industry delivery group will have significant impact on the timing of costs, in terms of when pension schemes are required to participate in dashboards. It may be the case that a phased approach is taken by which schemes of different characteristics (e.g. size) have a different timeframe with which to comply with legislation.

39. It is possible that some schemes/providers will incur additional costs to clean their members' data prior to making it available via a dashboard. We have evidence from TPR's 2016 survey²⁵⁶, Pension Expert²⁵⁷ and the 2017 ABI project²⁵⁸ that there are cases where data will need cleansing, especially for smaller schemes. However, since data cleansing is already considered under the current TPR focus on data sources and data improvement plans, we do not consider participation in the dashboards service to add to the costs of data cleansing given that these costs are already required by the IORPII directive²⁵⁹ (implementation of EU regulations compelling all schemes to supply an ABS) which strengthens the requirements to supply data.

40. There will be additional costs for both public and private sector DB schemes. This is because private sector DB schemes are not required to supply an ABS to members

²⁵⁶ TPR survey report 2016- <http://www.thepensionsregulator.gov.uk/docs/record-keeping-survey-2016.pdf>

²⁵⁷ <http://www.pensions-expert.com/Special-Features/The-Cut/Security-and-accuracy-the-pillars-of-dashboard-success>

²⁵⁸ Reconnecting people with their pensions, ABI, October 2017

<https://www.abi.org.uk/globalassets/files/subject/public/Its/reconnecting-people-with-their-pensions-final-10-october-2017.pdf>

²⁵⁹ The new directive on occupational pension schemes (IORP II) must be implemented in national law by mid-January 2019. Importantly this contains a requirement to supply Annual Benefit Statements to all members. In order to do this it requires data to be in good condition. <http://www.hoganlovellsukpensions360.com/news/briefing-note-iorp-directive>

unless the individual requests it. Whilst public sector DB schemes must supply a yearly ABS to all active members, and deferred members upon request. We estimate that around 75% of DB schemes send an ABS to people even if they are not required to do so²⁶⁰. It is also estimated that the costs of cleaning data will be up to 20% higher for those schemes who do not send an ABS to these members²⁶¹. However, as above we consider data cleansing to form part of all schemes' existing data improvement requirements to comply with IORPII²⁶² requirements.

41. It is expected there will be some on-going costs, such as the updating and maintenance of the data sent to the dashboard. Industry engagement suggests an additional cost in the thousands for large schemes on a yearly basis. We would expect the same for ISPs and administrators. Estimating a £100,000 on-going cost for a total of 552 connections²⁶³ this will come to **£55,200,000 p.a.** when discounted over 10 years this totals **£475,100,000**. This is an extremely uncertain figure: through informal engagement, several industry stakeholders reported that on-going costs will be in the thousands, and one respondent saying ongoing costs will be similar to their starting costs minus the set up cost of technology. This is our best estimate but should be treated as purely indicative. Applying a 90% sensitivity analysis, to account for those who said it would be in the thousands, this would give us a range of £5,520,000 p.a. to £104,880,000 p.a. (discounted over 10 years gives us a range of £50m-£900m).

Scenario 2 (ABS data, no exemptions)

42. The consultation sought evidence about exemptions to legislation on compulsion, as for some schemes it may be argued that the costs outweigh the potential benefits to those members. For context there are around 40,000 schemes and 50 million memberships. If, for example, micro schemes (those with 2 to 12 members) were exempted this would take around 30,000 schemes out of compulsion, but would only affect about 77,000 members (or approximately 0.2% of workplace memberships²⁶⁴). This suggests that the costs to include micro schemes may be disproportionate to the benefit from the very small increase in coverage. However, individual schemes who want to connect should not be prevented by legislation. The delivery practicalities of this is something to be looked at by the industry delivery group.

43. This scenario considers the additional cost to industry with no exemption for micro schemes. As for micro schemes, it is considered likely these schemes will supply data through an ISP. In this case they would also face a £10,000 fee. There are an

²⁶⁰ Based on the disclosure RIA 2006 which evidenced the Governments Actuary Departments Occupational Pension Scheme Survey 2004: http://www.legislation.gov.uk/ukia/2013/164/pdfs/ukia_20130164_en.pdf .

²⁶¹ Taken from 2006 RIA: http://www.legislation.gov.uk/ukia/2013/164/pdfs/ukia_20130164_en.pdf

²⁶² <https://www.plsa.co.uk/Policy-and-Research/Europe-International/IORP-Directive>

²⁶³ From table 1, this accounts for 61 large schemes who connect directly, 486 administrators of medium sized schemes, and 5 ISPs who connect on behalf of small sized schemes.

²⁶⁴ Internal analysis of TPR data from an extract received in January 2018

estimated 33,133 of these schemes meaning industry costs could increase by **£331m** if are included. As was done with the ISP cost a 90% sensitivity allowance to account for uncertainty must be applied, giving a range of £33m to £630m.

Table 2 – Implementation cost estimates and assumptions for micro size private sector schemes				
Scheme Size	No. of schemes	Cost assumptions	Evidence	Estimate
Micro (1-11 members)	33,133 schemes	<p>Integrate using contracted relationships with ISPs.</p> <p>Five ISPs will cover the whole market (as with small schemes)</p>	<p>Discussions with a large administration software provider suggest a basic package would cost £10,000 (as with small schemes)</p>	<p>£10,000 per scheme, £331m in total</p> <p>Applying 90% sensitivity adjustment gives a range of £33m to £630m.</p>

Scenario 3 (data requirements above ABS)

44. Under a scenario where schemes are required to produce information that isn't currently on an ABS, costs could significantly increase, which is highlighted as an area of concern for many providers. At this stage, given the lack of clarity around what additional information may be provided, and the limited evidence base on this from industry stakeholders, it is not meaningful to produce cost estimates. If it is decided that further information is required on dashboards this will be assessed in a future impact assessment alongside secondary legislation.

Cost to business to create the industry delivery group

45. The consultation set out a potential delivery model and this includes the creation of a delivery group funded by the pensions industry. In this model, the group would be responsible for governance of dashboards infrastructure, procuring a pension finder service, and establishing an implementation plan. In the consultation, the Government proposed that the industry delivery group would be funded by industry levies. Levy costs are not a regulatory provision within scope for the Business Impact Target, though do affect industry costs. It is possible that any levy costs may be passed on to members via charges.

46. It is not currently possible to estimate the running costs of the industry delivery group or implementation plan, as the SFGB (which came into existence in January 2019) does not yet have enough detail about the policy to forecast these costs. These costs will be included at the point of secondary legislation.

Cost of regulating dashboards

47. It is important that members are properly protected and DWP intend to work with the regulators (the FCA and TPR) and industry to ensure that appropriate and robust controls are in place to protect the individual user, utilising the existing regulatory framework wherever possible. There are risks to data sharing which need to be mitigated and these will be analysed in a Data Protection Impact Assessment.
48. If this work identifies new activities that are not covered by existing regulation, we will seek to amend secondary legislation as necessary. In this situation there will be a cost to the regulatory authority for the regulatory provision. These costs are not calculated in this assessment given the significant uncertainty over the full impacts of the proposal; the regulators who we contacted to estimate these costs indicated that they did not consider it a value for money exercise at this time to invest the resource necessary to create such an estimate, as such costs will be determined by the details to be set out later in subsequent secondary legislation. For example, for the onboarding process alone there are simply too many unknowns at this time, and the range would be so wide as to make the inclusion of reasonable costs difficult. We will be working closely with these regulators following primary legislation to estimate these costs.
49. It is expected that authorisation and regulation will be funded through levies. At this stage it is not possible to assess the impact on the Levy as the exact authorisation and regulation regimes remain undecided. Impacts upon levies will be explored when secondary legislation is applied and/or if a consultation on the general pension levy is opened (which itself would require an impact assessment).

Costs of creating a non-commercial dashboard

50. The current proposal suggests that multiple dashboards should be allowed to promote future innovation and provide a service tailored for specific consumer groups. However, industry are also expected to create a non-commercial dashboard which could be delivered by either a new entity or an existing body such as the Single Financial Guidance Body (SFGB). As all dashboards would be based on the same dashboard ecosystem and therefore display the same basic information, it is envisaged that only the range of functions available may differ, with commercial dashboards potentially offering more tools.
51. At this stage the costs in order to set up dashboards are unclear, as there is not yet sufficient available detail on requirements and implementation for the SFGB to assess these costs. On top of this there is likely to be tendering for some of the functions of this body and therefore much of their costs would be commercially sensitive. It is likely most costs would be covered by existing levies, in this case the general levy. These costs are not part of the Business Impact Target. Therefore, at this stage it is not possible to quantify these costs.

Costs and benefits to providers and administrators from member contacts

52. There may be increased contact from members to providers or administrators due to additional queries relating to the information displayed on a dashboard. This could include members not understanding the information displayed, wanting to update their information or querying the data that they are being shown. There is the possibility however that this may benefit administrators, with greater contact with members allowing administrators to update their data.
53. In the long-term, pension providers and administrators may receive fewer calls as people will be able to access information about their pensions in one unified place rather than contacting the provider / administrator of each of their pension schemes. This should enable members to understand their pensions and plan for the future better, without the need to contact the pension provider directly.
54. Experian's analysis estimates that there could be around £400 million in unclaimed pension and other life insurance products²⁶⁵. Pension providers have a cost in attempting to locate those members who have dormant pension pots. There is evidence²⁶⁶ that even when members are contacted about lost pots by their providers that members may think that it is a hoax and do not claim the money.
55. As dashboards will make it easier to trace a pension than the existing pension tracing service (where some information about the provider has to be known and the individual has to contact the provider directly) there may be a reduction in pension pots which are considered 'lost'. Therefore, there are benefits to providers and administrators through fewer members needing to be traced. There are also benefits to members recovering their lost money.

Impact on Financial Advice market

56. There could be impacts on the financial advice and guidance market. The dashboard may deliver efficiency gains to financial advisors, by reducing the amount of time required to retrieve information on their customer's pension savings. The availability of the dashboard may also impact on consumer demand for advice and guidance. Currently these impacts are highly uncertain, and we intend to continue to monitor them across the development of the dashboards.

Government costs and benefits

Cost to Government to make information about individuals' State Pension entitlement available to the dashboard ecosystem

57. Currently the Government intends to supply State Pension information via dashboards and we do not expect that this will require any new legislation. If Government does supply this information into dashboards there will be an associated

²⁶⁵ Email received from industry stakeholder in December 2017.

²⁶⁶ Commission on Dormant Assets, Tackling dormant assets, March 2017
https://assets.publishing.service.gov.uk/Government/uploads/system/uploads/attachment_data/file/596228/Tackling_dormant_assets_-_recommendations_to_benefit_investors_and_society__1_.pdf

cost. The DWP will calculate these costs once decisions on the dashboard requirements and implementation plans are confirmed.

Costs to public sector schemes

58. We may be required to introduce further legislation to enable certain public sector pension schemes to provide their data via dashboards. These schemes combined cover over 12 million workplace memberships (about a third of workplace memberships) within 498 schemes²⁶⁷. Public sector schemes are made up of 19 large schemes, 382 medium, 42 small, and 55 micro schemes. There would be associated costs of supplying data for these schemes. Public sector organisations will also incur costs for increases in the levy for public sector schemes. These levy costs are not in scope and are therefore not included in this document.
59. With consistent familiarisation costs as for private sector schemes (see paragraph 35), the cost for the 498 public sector schemes will be **£28,385**.
60. Engagement with public sector pension stakeholders suggests that they will connect in a manner consistent with private sector schemes. Large and medium sized schemes are assumed to connect via administrators, while small and micro schemes connect via ISPs.
61. The assumptions and implementation cost estimates for public sector schemes are summarised in Table 3.

Scheme Size	No. of schemes	Cost assumptions	Evidence	Estimate
Large and medium schemes (over 100,000 members) (100-99,999 members)	19 large schemes 382 medium schemes 128 administrators	Connect through external administrator, with costs split between the administrator and the scheme. Multiple schemes will use the same administrator.	Engagement with public sector pension industry stakeholders suggests large and medium schemes will connect through administrators. Indicative per scheme costs of £75,000 for data preparation supplied by one large	£75,000 per scheme, £30m in total. Applying 50% sensitivity adjustment gives a range of £15m to £45m .

²⁶⁷ Internal analysis of a data extract from TPR, received in January 2018

		Total costs include costs per scheme to prepare data, cost fee per administrator to connect to the dashboard (only incurred for each administrative software connected)	administrative software provider Discussion with pension administrators who cover a large share of the market suggests setting up an API to establish a link would be around £100,000 per package.	£100,000 per administrator, £13m in total. Applying 20% sensitivity adjustment gives a range of £10m to £15m. Total costs associated with medium schemes range from £25m to £60m.
Small and Micro (12-99 members) (1-11 members)	42 small schemes 55 micro schemes	Integrate using contracted relationships with ISPs. Five ISPs will cover the whole market (as with small and micro private sector schemes)	Engagement with public sector pension industry stakeholders suggest both small and micro schemes will connect via ISPs. Discussions with a large administration software provider suggest a basic package would cost £10,000 (as with small schemes)	£10,000 per scheme, £1m in total Applying 90% sensitivity adjustment gives a range of £0.1m to £2m.

Small and micro business assessment

62. The costs to business fall on pension schemes and providers. Small and micro business who operate small and micro pension schemes may be affected. However, assessing the impact of dashboards on this group is difficult, as it is not necessary that small and micro pension schemes correspond to small and micro businesses. For example, many large firms may run Executive Pension Plans with only a few members. Similarly, small employers may enter their staff in larger master trust schemes. As dashboards legislation happens on the basis of pension scheme size, and there is currently no robust evidence to link pension scheme size to employer size, it is difficult to accurately assess the impact on small and micro businesses.

63. Primary legislation will not include detail on specific exemptions, though our illustrative costs assume exemption of micro schemes. Exemptions will be explored

further before secondary legislation at which point decisions as to whether certain schemes will be made exempt or not will be explored. The correlation between Small and Micro businesses and where they fall in the pension industry is being analysed as we develop policy in the lead up to secondary legislation, and is an area we are committed to exploring in order to more fully understand the impact at that stage.

Total costs and benefits (illustrative estimate of EANDCB)

64. Table 4 shows indicative estimates of where the EANDCB could fall at the point of secondary legislation. Note, this table only contains monetised costs and benefits where it was feasible to do so, and that the quality of the evidence is not sufficiently high to be able to consider this a robust estimate.

Table 4 – Illustrative estimate of EANDCB for private sector pension schemes (sensitivity analysis ranges given in brackets) ²⁶⁸			
	Fixed implementation cost	Annual Ongoing	Over 10 years
Familiarisation	£2m	N/A	£2m
Large Schemes	£12 (£6-£18m)	N/A	£12 (£6-£18m)
Medium Schemes	£345m (£190m-£510m)	N/A	£345m (£190m-£505m)
Small Schemes	£30m (£3m-£55m)	N/A	£30m (£3m-£55m)
Micro Schemes	£330 (£35m-£630m)	N/A	£330 (£35m-£630m)

²⁶⁸ Figures below £20m are rounded to the nearest £1m, figures above are rounded to their nearest £5m

All schemes (on-going) (assume no marginal change for inclusion/ exclusion of micro schemes)	N/A	£55m (£5m-£105m)	£475m (£45m-£900m)
Total (not including micro schemes)	£390m (£200m – £580m)	£55m (£5m-£105m)	£865m (£245m-£1,480m)

Wider Social Consequences

65. Dashboards are expected to have positive social impacts on those with protected characteristics²⁶⁹. Dashboards make information about pension savings more accessible, by providing an additional and easier way for individuals their information. As dashboards are a voluntary service, they do not reduce any options that are already in place to understand pensions. For this reason, dashboards are not seen as discriminatory. If for any reason a person has no access to digitalised media they will still receive the same service they had previously such as receiving annual benefit statements (if they were entitled). However, it is important dashboards are created with accessibility needs in mind. They should meet the highest standards to allow equal access to all parties. All efforts will be made to make dashboards universally accessible.

66. Dashboards may help those on lower incomes with less savings relatively more than wealthier individuals. Less wealthy individuals will have a higher marginal value of additional savings in retirement, meaning the potential improvement in retirement planning stemming from the dashboard will have higher benefits for this group.

67. Impacts upon those with protected characteristics will be explored further in an Equality Impact Assessment to be published alongside a Pensions Bill.

Unintended consequences

68. Increased engagement could conceivably indirectly lead to worse retirement outcomes, as provision of information in and of itself does not necessarily overcome all barriers to optimal decision making. For example, if individuals choose to consolidate multiple pots as a result of accessing the dashboard, this could result in all of their assets being in a scheme with poor returns. The Government would continue to encourage anyone to seek advice or guidance before making any decisions. The Government will carefully consider

²⁶⁹ Those who are considered vulnerable and covers: age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership and pregnancy and maternity.

whether any proposals from the industry delivery group on potential functions available on dashboards could encourage poor decision making.

69. There are a number of behavioural biases to consider in designing an effective dashboard. For example, if information is displayed in a way that makes individuals believe they have significant/more wealth than they'd assumed, it could lead to them saving less in the future, as they believe they are better off than they actually are. If for example the pot is displayed as a total value of assets this can appear significant to an uninformed individual, when in fact this may only provide a modest income stream in a retirement currently lasting on average 18.6 years for men and 20.9 years for women²⁷⁰.
70. Alternatively, some individuals relatively new to saving may see how small their pension savings are, feel despondent, and may decide that saving is no longer worth it. In this case outcomes would be made worse in retirement.
71. A key unintended consequence to consider is the affordability, especially for smaller schemes, to ensure schemes and businesses do not become unable to afford any regulatory burdens imposed. This is a key consideration for the industry delivery group and future decisions on secondary legislation.

Next steps

72. The illustrative costs in this document are highly uncertain, firstly due to the deliberate lack of prescribed detail in the design of the dashboards which allows greater freedom for the industry to create the best solution, and secondly due to a lack of currently available evidence. We will continue to gather evidence and will update this impact assessment for secondary legislation.
73. The primary source of additional evidence is expected to come from further engagement with the pensions industry to get better cost estimates, particularly for small schemes, as well as indicative call volumes from member enquiries. As at the point of secondary legislation when there is greater certainty around the policy, we expect that industry stakeholders will be better able to provide robust cost estimates to assess impacts.
74. The Government will also provide costs of inputting State Pension data into dashboards, and work with the SFGB to provide costs estimates for creating the dashboard infrastructure and setting up the industry delivery group.

Summary

75. The Government will establish an industry delivery group to develop a detailed design and implementation plan for pensions dashboards, and taking powers in primary legislation to compel pension schemes and providers to supply data to the dashboards. The aim of establishing a dashboard ecosystem is to enable citizens to securely access their pensions information online, all in one place, and at a time of their choosing in order to improve retirement outcomes for millions of individuals.
76. The creation of pension dashboards will impose new regulatory burden on the pensions industry – most notable for schemes and providers who will be required to invest in new

²⁷⁰<https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/datasets/healthstate-lifeexpectancyatbirthandage65bylocalareasuk>

systems in order to connect with the dashboard ecosystem and provide data on an ongoing basis. At this stage it is not possible to provide a meaningful estimate of the EANCB, but illustrative estimates suggest the cost to business over 10 years could be within the range £245m-£1,480m

77. DWP will work with the SFGB, industry delivery group, and wider industry engagement to establish firmer evidence of the business impact as the detailed design and implementation plan is confirmed and subsequent secondary legislation is brought forward.

Annex

Terminology and context

78. This section contains some background information about terminology and the pensions dashboard which are used throughout the document.

Pension Scheme

79. Private pensions can be either occupational (usually trust-based) or personal pensions, including group personal pensions (GPPs, which are usually contract-based) and individual personal pensions (IPPs). The category into which they fall affects which regulations they must comply with and which body is responsible for regulating them.

Pension Provider

80. A firm which contracts with an individual, either directly (IPP) or via their employer (GPP & other) to offer a personal pension pot into which the member (and potentially their employer) can contribute and exchange for one or more cash withdrawals or an income stream (or a combination of the two) in retirement.

Pensions Administrator

81. A person or body responsible for the day-to-day management of a pension scheme. The administrator will maintain members' records, calculate and pay benefits and manage contributions.

Pension Freedoms

82. Pension freedoms introduced in the 2015/16 tax year enable anyone aged 55 and over to take the whole amount of their Defined Contribution (DC) pension as a lump sum, paying no tax on the first 25% and the rest taxed as if it were a salary at their income tax rate.

83. The following levies on industry are discussed in this impact assessment:

- Financial Services Levy - The Financial Services Levy is collected by the Financial Conduct Authority (FCA) from different sectors of the financial services industry. The levy is set by the FCA and revised each year following consultation with the firms they authorise and some other bodies. The fees charged depend on the type of regulated activities and the amount of business a firm conducts as well as the cost to regulate these activities. Some of the funds collected are also used to pay for pension guidance, money guidance and debt advice (which were delivered through Money Advice Service, Pension Wise and part of The Pensions Advisory Service (TPAS) – but have recently been incorporated in the new Single Financial Guidance Body (SFGB)).
- The General Levy is in place to cover the cost of running The Pensions Regulator (TPR), the Pensions Ombudsman Service and TPAS (TPAS is now incorporated into the SFGB). The levy is calculated by reference to the total number of members within a pension scheme.

What is the dashboards ecosystem?

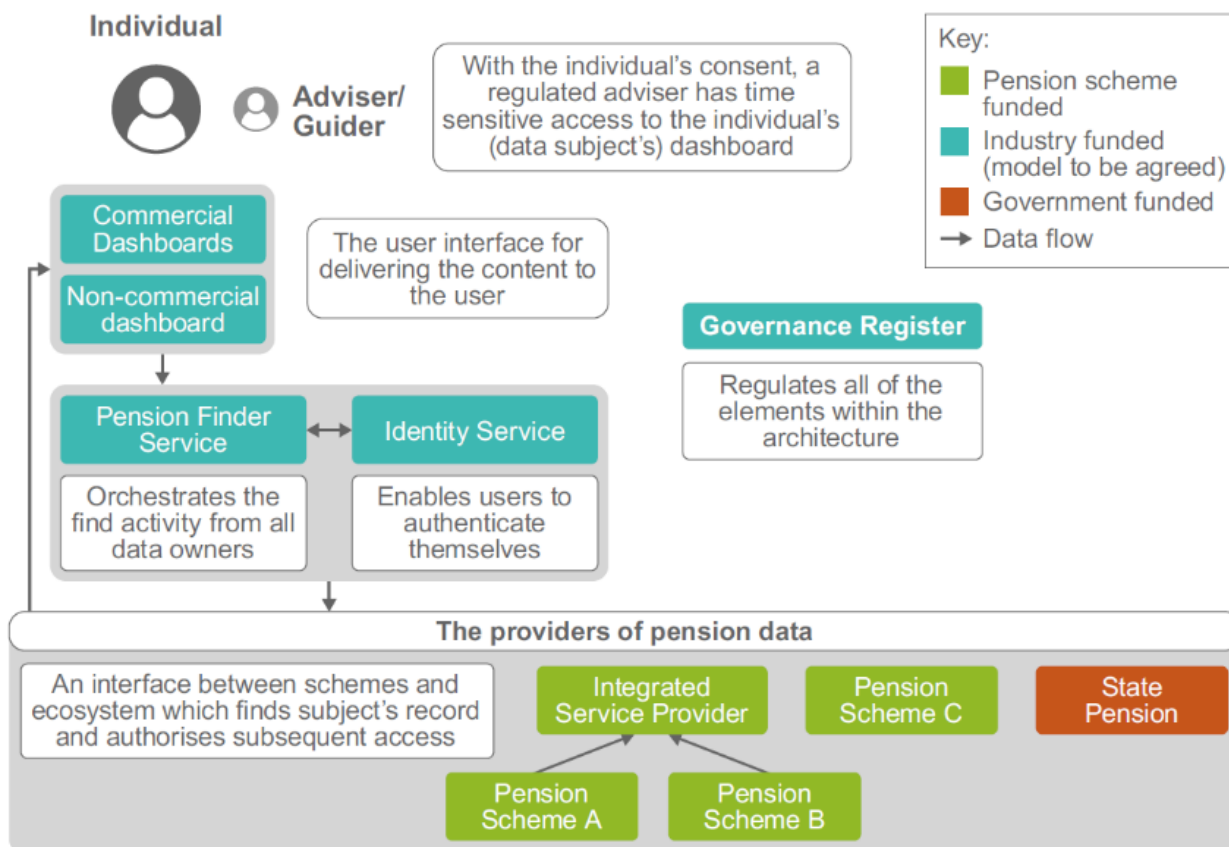
84. The architecture behind pensions dashboards has been explored but not finalised. The architecture is discussed in more detail in the consultation document²⁷¹, but note that the actual design will be developed and owned by the industry delivery group. The section titled 'Limitations and challenges of estimating the impact of option 2' outlines the key policy choices which are uncertain, and the implications for the estimates presented in this impact assessment.

- It is the design of the entire dashboard ecosystem that provides the link between the data held by pension schemes and the user who wants to be able to view their pension information on a dashboard (the user interface). This section summarises the potential model of a dashboard ecosystem as presented in the consultation document²⁷², and outlined in diagram 1 below, with the caveat that this may be subject to change across the development and implementation of the dashboards. Under the proposed model, several elements of the ecosystem will be industry funded, with the specific funding model to be agreed. The key elements of this ecosystem are:
 - a. dashboards (the user interface);
 - b. Pension Finder Service (PFS);
 - c. Pension schemes (providers of the data);
 - d. State Pension;
 - e. identity service (security and access control);
 - f. Integrated Service Provider (ISP); and
 - g. governance register.

²⁷¹ <https://www.gov.uk/Government/consultations/pensions-dashboards-feasibility-report-and-consultation>

²⁷² <https://www.gov.uk/Government/consultations/pensions-dashboards-feasibility-report-and-consultation>

Diagram 1: Model of a dashboard ecosystem




- Dashboards** are the user interface for delivering the content (data) to the individual user. This is the entry point for the user to initiate a search for their pensions and gather information about, for example, the value of their pension pot(s). The proposed architecture would support multiple dashboards hosted by different organisations; whether the dashboard is commercial or not depends on the nature of the organisation hosting it. The possible functionality of dashboards (data and services provided) and what the Government may require as a minimum from pension schemes has not yet been decided. Recent research from NOW:Pensions²⁷³ highlights the range of possible functions that consumers may expect. There will be multiple dashboards, however all based on one ecosystem. This means that whichever front facing dashboard an individual logs in to they will receive the same information. Having multiple dashboards could increase engagement as it allows users to log in using an institution that they have a relationship with and trust, whilst it should make dashboards more visible.
- The **Pension Finder Service** (PFS) will be developed is the part of the ecosystem. It sends out an instruction to pension providers or Integrated Service Providers to search their own records for a user's pension. As the diagram shows, if a provider or ISP finds a match, it returns a unique

²⁷³ <https://www.nowpensions.com/press-release/consumers-back-dashboard-want-just-window-savings/>

reference for the user's pensions asset and a token (key) which allows the user's chosen dashboard to access their data.

- **Pension schemes** hold individual users' pension data. To return data to the user, they must be connected to the dashboard ecosystem. Under the model proposed above, pension schemes will bear the cost of connecting their IT systems to the dashboard ecosystem, and for the processing and provision of the data. Where desired, schemes can utilise a contractual relationship with an Integrated Service Provider (ISP) to enable their data to be accessed by the ecosystem.
- The Department have committed to including **State Pension** in dashboards. The specifics of the delivery (data standards, security) and the timescales for this are not yet decided. The cost of this will be borne by Government.
- The **identity service** enables users to authenticate themselves so that they can access other elements of the ecosystem. It provides the verification required to assure data providers that they are returning data to the correct individual user and no one else. Provision of the identify service will be determined by the market, in ways consistent with National Cyber Security Centre's Good Practice principles.
- The **Governance Register** provides assurances that different elements of dashboards ecosystem (e.g. dashboards, pension schemes) meet certain standards and requirements. This is a technical service that would ensure that individual elements operate correctly within the ecosystem.
- An **Integrated Service Provider** (ISP) enables an individual's pension information to be securely held (on behalf of pension schemes) and accessed by the user via a dashboard where the provider is not able to do so (e.g. where a small pension scheme does not have the system capability or resources to connect to the ecosystem directly).

Annex I: Member Protection – Transfers

 Department for Work & Pensions		<h2>Impact Assessment (Bill Final)</h2>	
Title of measure		Legislating to help trustees ensure that transfers of pension savings are made to safe and not fraudulent schemes	
Lead Department/Agency		DWP	
Planned coming into force /implementation date		April 2021	
Origin (Domestic/EU/Regulator)		Domestic	
Policy lead		James Calverley	
Lead analyst		Tara Nicholson / Tom Drissi	
Departmental Assessment		Self-certified	
Total Net Present Social Value (over 10year period): £174.2m	Equivalent Annual Net Direct Cost to Business (EANDCB)(over 10 year period: £0.8m	Business Impact Status: Non-Qualifying Regulatory Provision	
Summary - Intervention and impacts			
<p>Policy Background</p> <p>The Government is committed to protecting pension scheme members from being victims of pension scams. In his Autumn Statement 2016, the Chancellor announced that the Government would consult on a package of measures to tackle scams. One of the measures in the package included amending a members' existing statutory right to transfer their pension benefits to another pension scheme. Trustees or scheme managers (or pension providers acting on their behalf) can ensure, as far as reasonably possible, that transfers made are to safe and not fraudulent schemes (the "transfers measure"). The vast majority of respondents to the pension scams consultation supported the proposed transfers measure and the Government confirmed in its August 2017 response²⁷⁴ to the consultation that it would bring forward legislation to implement this measure following the roll-out of the Master Trust authorisation regime in 2018-19.</p> <p>Issue/Rationale for Intervention</p> <p>Pension scams can cost pension scheme members their life savings and with little, or no opportunity to build their pension benefits back up it can leave them facing retirement with limited income (detail on the type of scams is set out in the additional detail section below). Research by Xafinity²⁷⁵ in 2016 suggested that around 11% of pension transfer requests showed signs of scam activity.</p> <p>Under Part 4ZA of the Pensions Schemes Act 1993²⁷⁶, and subject to certain conditions (e.g. the member hasn't started to draw their pension), certain pension scheme members have a statutory right to transfer their pension benefits to another pension scheme. Currently, trustees or scheme managers (or service providers acting on their behalf) do not have a legal basis to refuse a transfer request if they have no evidence to support that the receiving scheme is a fraudulent scheme. The limits to the statutory right to transfer include that the transfer has to be to a registered pension arrangement to avoid a tax penalty being applied after the transfer²⁷⁷ has been made.</p>			

²⁷⁴

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/638844/Pension_Scams_consultation_response.pdf

²⁷⁵ http://www.xafinity.com/c_m_s/posts/view/Xafinity-Group/2016/05/25/Possible_scams_in_11_of_pension_transfer_cases_finds_Xafinity

²⁷⁶ http://www.legislation.gov.uk/ukpga/1993/48/pdfs/ukpga_19930048_310815_en.pdf

²⁷⁷ HM Treasury provides tax-relief to savers. Restricting transfers to registered pension arrangement are there to safeguard tax relief provided to savers. Where transfers are to non-registered destination the member will experience a tax-charge of 55% of the value of the pension transfer.

While trustees or scheme managers (or personal pension providers acting on their behalf) can refuse a transfer request, their decision can be the subject of a complaint to the Pensions Ombudsman. A decision to refuse that isn't supported by robust evidence, even where there is a strong suspicion the destination of the transfer may be subject to a scam, can be overturned by the Ombudsman. Consequently, transfer requests can be progressed even where a scam is suspected. This has led to repeated calls from industry and others for stronger measures to protect pension scheme members from potentially fraudulent transfers.

Proposed Intervention

We propose to amend Part 4ZA of the Pensions Schemes Act 1993 (primary legislation) to enable changes to be made to the existing statutory right to transfer of pension benefits by pension scheme members (to be set out in subsequent secondary legislation). We plan to amend the statutory right to transfer so that it applies only if at least one of the following conditions regarding the transfer destination is satisfied. These are transfers to:

- pension schemes that are operated by a firm that is authorised and regulated by FCA; or
- authorised Master Trusts; or
- pension schemes where a genuine employment relationship between the member and the scheme employer can be established (background detail about this condition is set out in the additional detail section below); or
- Qualifying Recognised Overseas Pension Schemes (QROPS) in certain circumstances.

The proposed changes provide a strong safeguard, but are not intended to block legitimate transfers wherever possible. Pension scheme members who do not qualify for the statutory right to transfer their pension benefits between pension schemes under the proposed criteria will still be able to transfer. They can seek a discretionary transfer, where their scheme's rules permit this. However, even if the scheme's rules do not allow discretionary transfers the member can still, for example, transfer to an authorised Master Trust whose rules do allow discretionary transfers in order to then transfer their pension benefits to the scheme of their choice. The proposed changes to legislation is intended to provide a strong safeguard, but it is not intended to block legitimate transfers wherever possible. For further detail on the proposed process, please see annex A.

Intended Effects

The intended effect is to prevent pension benefits from being transferred to fraudulent destinations in order to prevent losses of retirement income.

Brief description of viable policy options considered (including alternatives to regulation)

Option 1 – Do nothing.

This option will not reduce the risk of scams pension scheme members falling victim to pension scams, which can be devastating and deny them the retirement they had planned and saved for. Action Fraud estimates that people who reported being a victim of a pension scam in 2017 lost on average £91,000²⁷⁸. This option will not meet industry and pensioner expectation that more will be done to help them and trustees safeguard pension transfers. The Government has already confirmed in its response to the pension scams consultation that it will implement this measure to protect pension scheme members.

This option, therefore, is not viable.

Option 2 – non legislative approach (produce further guidance on how to safeguard pension transfers)

²⁷⁸ <https://www.actionfraud.police.uk/news/victims-of-pension-fraudsters-lost-an-average-91k-aug18>

Both the Pensions Regulator (TPR)²⁷⁹ and Financial Conduct Authority (FCA)²⁸⁰ have already produced considerable guidance for the industry and consumers on how to spot a pension scam. TPR has also made clear to trustees that effective due diligence is key to protecting people against scams. In addition, the Pension Scams Industry Group has produced a Code of Practice²⁸¹ for combating scams, which sets out robust due diligence processes for trustees and pension providers to follow, to help them identify pension scams. Despite this, people are still losing savings to scammers and the industry is still calling on the Government to help them safeguard pension benefits.

We have therefore concluded that the non-legislative approach is insufficient to meet the policy objective to protect pension scheme members from scams.

Option 3 - Legislate to help trustees ensure transfers are made to safe and not fraudulent pension schemes

By amending the existing statutory right to transfer to help trustees (or pension providers acting on their behalf) to ensure that transfers of pension benefits are made to safe and not fraudulent schemes, the Government will meet industry expectation and the commitment it gave to tackle scams and protect consumers.

This is, therefore, the preferred option.

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

Impact on Business

Impacts will depend on the policy detail, which will be set out in subsequent regulations (secondary legislation) and which will be subject to consultation. Based on how we currently envisage the criteria working in practice and certain assumptions, we provisionally assess the Equivalent Annual Net Direct Cost to Business (EANDCB) to be approximately £0.8 million. The Department for Work and Pensions (DWP) will produce a revised assessment of the EANDCB and other impacts at the secondary legislation stage, which will be subject to consultation, if we envisage any changes to the assessment presented in this impact assessment.

Impact on Members

We expect there to be a significant personal benefit for the relatively small minority of pension scheme members who would have lost money through pension scams. Action Fraud estimate the average loss of pension benefits because of scams to be £91,000 per member. As a reasonable estimate, we anticipate that by stopping pension scams for this small minority of pension scheme members, they would benefit from retaining on average, £91,000 in their pension pot.

There will be a cost to members to provide the relevant information required for a transfer to a QROPS or where an employment link needs to be established. Based on how we currently envisage these criteria working in practice and certain assumptions, we estimate it would cost an individual £3.91 to locate and send evidence of the employment link, and £4.49 to provide and send the required evidence for a transfer to a QROPS to establish the residency conditions. There is also a cost to certain members, where their pension transfer is identified as containing indicators it is at risk of being a pension scam²⁸². These members will be referred to a prescribed body to access guidance, and will incur the cost of confirming to trustees that they have sought said information and guidance. We estimate it would cost this subset of members approximately £6.25 to collate relevant evidence and communicate this to a trustee. This is significantly smaller than the potential amount lost to a pension scam. Based on the estimated number of transfers that are requested each year this gives a total cost to pension scheme members of £424,000 in any given year.

²⁷⁹ <http://www.thepensionsregulator.gov.uk/pension-scams>

²⁸⁰ <https://www.fca.org.uk/scamsmart/how-avoid-pension-scams>

²⁸¹ <http://www.combattingpensionscams.org.uk/>

²⁸² These indicators will be prescribed in regulations.

Departmental Policy signoff (SCS):	David Bateman	Date: 09/10/2020
Economist signoff (senior analyst):	Joy Thompson	Date: 12/10/2020
Better Regulation Unit signoff:	Prabha Mistry	Date: 15/10/2020

Additional detail

A brief description of pension scams and their evolution since 2015

Pension scams can take a number of different forms. Traditionally, they were aimed at pension scheme members who had not yet reached minimum pension age, and purported to provide a way in which members could access their pension benefits early without incurring a tax penalty. This is commonly known as pension liberation fraud. Since the introduction of the pension freedoms in April 2015, there has been a change in the rules as to when scheme members will be able to access their pension benefits without incurring a tax penalty. A more common fraud model now seeks to entice members to transfer their pension benefits into seemingly legitimate arrangements. They are then advised to invest in fraudulent esoteric investments with unrealistic investment returns, as well as being offered direct access to the pension benefits. A variation might be where the individual is encouraged to utilise the pension freedoms to withdraw a lump sum from their pension into their bank account and then is advised to invest their money into fraudulent investments.

Establishing a genuine employment link – additional background information

This condition is about allowing trustees to establish a link between the member and the employer participating in the scheme the member wants to transfer their fund to, and between the participating employer and the receiving scheme. Exact detail will be confirmed at later legislative stages, but provisionally we envisage members will be required to provide payslips and bank statements over a three month period, in which the level of earnings in each of those months must be at least equal to the National Insurance lower earnings limit.

The pension provider of the ceding scheme will need to obtain the schedule of contributions or payment schedule (showing both employer and member contributions) from the employer as well as a letter in which the employer states they are participating in the receiving scheme and employ the member.

Establishing a transfers to a QROPS – additional background information

People who are transferring to a QROPS for employment reasons (i.e. they want to transfer their UK pension to the pension scheme of their new employer) will need to satisfy the employment link conditions.

While we are part of the EU or during any implementation period that is agreed, a condition will apply that where a transfer is being made to an EEA QROPS both the member and the QROPS will need to be in the EEA though not necessarily the same EEA country.

Where the transfer is to a QROPS based in a non-EEA country, the member will need to be able to demonstrate that they have been residing in the same country in which the QROPS is based and have done so for at least six months. It will be for the trustees of the ceding scheme to determine what evidence they accept from the member proving this residency requirement. Following the introduction in 2017 of HMRC's overseas tax charge, trustees or pension providers acting on their behalf, should already be assessing residency requirements relating to the tax charge.

Potential scale of the underlying issue and impacts of the intervention

- At present, one of the destinations specified by the policy is to FCA regulated schemes. We have made no assumption on the number of transfers into these schemes, as we are not currently introducing any additional checks in regards to FCA regulated firms and therefore there is no additional burden to business.

- According to data provided by The Pensions Regulator (TPR) to DWP, in 2018 there were an estimated 60,000 transfers out of occupational DC pension schemes (including fewer than 1,000 out of micro schemes). According to TPR data²⁸³, in 2017/18 there were estimated to be 100,000 transfers out of DB occupational schemes. We do not have any information on the number of transfers out of DC contract based schemes.
- We do not know the destination of the above transfers. However, as the total number of transfers in and out and pension schemes must be equal, we have made the assumption that the number of transfers in and out of occupational pension schemes are equal, and the number of transfers in and out of contract based schemes are equal.
- We do not have any data on the number of transfers out of DC contract based schemes. However, if we assume that this number is equal to the number of transfers going into contract-based schemes (which we have established have no additional burden of the legislation, as they are FCA regulated) then we do not need to include this figure in the total number of transfers, which will be impacted by the legislation.
- Therefore, the number of transfers the figure of 160,000, as calculated above.

Expected number of transfers impacted

DC Trust	60,000
DB	100,000
DC Contract	-
Total	160,000

- Of the total assets transferred in 2017/18, 65% of these were to Master Trusts²⁸⁴. At this stage, we are using this percentage as a proxy for the percentage of transfers into Master Trusts. We therefore assume that at a minimum, this proportion of transfers would be allowed at this stage without any further checks, and therefore 104,384 ($160,000 \times 0.65$) transfers would go into Master Trusts. The remaining 55,616 ($160,000 - 104,384$) transfers will be subject to the earnings and employer link checks under the new rules.
- Xafinity research² showed that around 11% of transfer requests showed signs of scam activity, albeit that in the majority of these cases the transfer did not go ahead. Assuming therefore that these suspected scam transfers are not included in the 160,000 transfers reported by TPR, the total number of transfers had those gone ahead would be 179,775 ($160,000 / 0.89 = 179,775$). We assume that the stopped 11%, equivalent to 19,775 ($179,775 \times 0.11$) transfer requests, would not be seeking a Master Trust as the receiving scheme, and will therefore be subject to the checks for the earnings and employer link under the new rules. We therefore assume 74,216 ($55,616 + 19,775$) transfer requests will be subject to the earnings and employer link checks. No assumption has been made on the impact of the regulations in reducing scam activity. If there were an impact, this would be expected to reduce the 19,775 transfer requests which showing scam activity, and therefore the number of earnings and employer checks.
- In 2017/18 there were 4,700 transfers into QROPS²⁸⁵. These will either have come from an occupational or contract based pension scheme. If they have come from an occupational pension scheme then they are accounted for in the total number of transfers we have explained above (160,000). In the absence of any data on where the transfers have come from, and given that the

²⁸³ An FOI: [https://www.thepensionsregulator.gov.uk/en/about-us/freedom-of-information-\(foi\)/number-of-transfers-out-of-db-schemes-in-2017-18](https://www.thepensionsregulator.gov.uk/en/about-us/freedom-of-information-(foi)/number-of-transfers-out-of-db-schemes-in-2017-18)

²⁸⁴ The Pensions Regulator data.

²⁸⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/730368/QROPS_July_2018.pdf

percentage from occupational schemes could be anywhere between 0 and 100%, we have taken the mid-point and assumed 50% of transfers came from occupational schemes and 50% came from contract based schemes. Therefore, we are assuming that 2,350 of the transfers into QROPS have come from occupational pension schemes.

- Of these 2,350 transfers into QROPS, some may be as a result of an employee moving to a new employer overseas and therefore would be subject to the employment link as opposed to the QROPS specific regulation. In the absence of data on the number of transfers which are as a result of moving to an abroad employer, and given that this percentage could be anywhere between 0 and 100%, we have taken the mid-point and assume that 50% of transfers into QROPS (1,175) will be subject to the employment link.

	Cumulative number of transfer requests
Total number of transfers out of occupational schemes	160,000
Minus the 65% (104,384) of the above transfers going into Master Trusts	55,616
Plus the additional 11% (19,775) of transfer requests which were suspected of scam activity	75,391
Minus the number of transfers into QROPS (2,350)	73,041
Plus the number of transfers into QROPS which will be subject to the employment link criteria (1,175)	74,216
Total number of transfer requests subject to the employment link criteria	74,216

Business impacts

Impact on Pension Providers/Schemes

Administration costs

If providers/schemes need to check a list of authorised Master Trusts, then we assume this will not add any additional requirement to schemes. We assume that schemes currently broadly follow the industry Code of Good Practice²⁸⁶ that involves initially checking internal lists of known pension schemes. Therefore, as we assume that schemes will already be checking these lists there will be a negligible additional burden.

If the process of establishing the employment link involves the pension provider sending a letter to the employer and to the member, and then processing this information, the estimated cost for this would be **around £420,000**. This is based on:

- 2 letters being sent (one to the member and one to the employer) at a price of £0.79 per letter²⁸⁷, for each of the 74,216 transfer requests. This gives a cost of around £117,000.

²⁸⁶ http://www.tisa.uk.com/publications/875_180605CombatingPensionScamsCodeVersion2FINALsigned.pdf

²⁸⁷ Royal mail website quotes 67p to send a letter first class, A previous impact assessment from 2014 (https://www.legislation.gov.uk/ukia/2014/406/pdfs/ukia_20140406_en.pdf) quoted 4p per envelope and 8p to print (which is already updated to show costs in 2020).

- A period of time spent writing (which in theory can be standardised) and processing each of the two letters at a wage of £19.48²⁸⁸ for a pension administrator's time, taken from the Annual Survey of Household Earnings (2017)²⁸⁹. At this stage, it is difficult to quantify with certainty how long this task would take until policy detail is confirmed, and more evidence is available. However, we have made an arbitrary assumption that it would take 15 minutes for this task, as it is a relatively simple task for an administrator to perform and each letter need not be long in length. This gives a cost of around £723,000.
- Assuming under the counterfactual that 50% of schemes/providers will already be doing something similar to this before processing a transfer (while complying with the Code of Good Practice) this gives a cost assumption of $0.5 * £840,000$, therefore around £420,000. The percentage of schemes/providers complying with the Code of Good Practice could be anywhere between 0% and 100%. In the absence of data, we have taken the midpoint and made an assumption that 50% of schemes will be following this process already, and therefore assume that 50% of transfer requests would already be undertaking this process.

If the process for transferring into a QROPs involves the trustee or provider sending a letter to the scheme member wanting to transfer their pension benefits, then the estimated cost for this would be **around £15,000**. This is based on:

- In 2017/18 there were 4,700 transfers into QROPs¹¹. As discussed above, we are assuming that 50% of these have come from occupational schemes (2,350), and 50% from contract based schemes (2,350). Within each of these, 50% will be subject to the employment link and are therefore already accounted for under the employment link criteria (2,350)²⁹⁰. Therefore, the remaining 2,350 transfers are into QROPs, which are not subject to the employment link, and therefore will be subject to the QROPs conditions.
- 1 letter sent for each transfer at a cost of £1.37 per letter²⁹¹ gives an estimated cost of around £3,000.
- 15 minutes to write and process each letter by a pension administrator, at a wage of £19.48, as discussed previously. This gives an estimated cost of £12,000.

Trustees and scheme managers presently carry out checks as to the appropriateness of members' pension transfer requests. This due diligence is a legal requirement in as much as trustees carry it out as part of their wider fiduciary duty to act in the interests of the member. It involves establishing members' motivations for the transfer, the validity of the transfer destination and looking for indications of a pension scam before the transfer proceeds. The new requirements to 'refer members to guidance where the risk of a pension scam is identified' will build on these existing processes. It will also require trustees inform those who have to take guidance and check that the member has done so before the transfer can proceed.

It is assumed at present that the process of trustees informing certain individuals (those requesting transfers containing indicators it is at risk of being a pension scam) that they must seek relevant guidance could involve the following elements:

- a one off cost to the pension provider of producing the relevant letter template/comms material;
- an ongoing cost to pension providers of sending these letters to the relevant members; and,

²⁸⁸ The hourly wage for a pension administrator is £15.34, from the ASHE survey 2017 revised. This has been uplifted by 27% to account for non-wage costs as proposed in the HM Treasury's Green Book.

²⁸⁹ ASHE 2017 – [Link](#)

²⁹⁰ Occupational schemes $50\% * 2,350 = 1,175$. Contract based schemes $50\% * 2,350 = 1,175$. Total subject to employment link regulation is $1,175 + 1,175 = 2,350$.

²⁹¹ Royal mail website quotes £1.10 to send a letter internationally via economy internal post. A previous impact assessment from 2014 ([link](#)) quoted 4p per envelope and 8p to print.

- an ongoing cost for providers for checking the evidence provided by members to confirm they have sought guidance as instructed.

The estimated one-off administrative costs to pension providers for these would be **around £730,000**, and the estimated ongoing administrative costs for this would be **around £223,000**²⁹². These are based on:

One-off Costs of Drafting the Letter Template

- We allow for the time spent writing a standard letter template at a wage of £19.48²⁹³ for a pension administrator's time, taken from the Annual Survey of Household Earnings (2017)²⁹⁴. At this stage, it is difficult to quantify with certainty how long this task would take until policy detail is confirmed, and more evidence is available. However, we have made an initial assumption allowing 60 minutes for this task, as it is a relatively simple task for an administrator to perform. We have also allowed for an additional 30 minutes for a trustee to read, check and sign-off the standardised letter, at a wage of £25.44²⁹⁵ also taken from the Annual Survey of Household Earnings (2017). This gives an **estimated one off cost of around £730,000**, with an average one-of cost of £32.20 per scheme in scope.

Ongoing Costs of Sending Letters to Certain Members

- We allow for the cost of a pension administrator's time preparing the pre-prepared letter template as well as the cost of sending the letter itself. We assume 1 letter sent for each transfer at a cost of £1.37 per letter²⁹⁶, and we assume the pensions administrator 20 minutes to prepare and personalise the letter template (at a wage of £19.48²⁹⁷). Whilst it is difficult to quantify with certainty how long this task would take until policy detail is confirmed, it is a relatively simple task for an administrator to perform given a standard letter template will have already been prepared.
- Given the aforementioned estimated 19,775 transfer requests which were suspected of scam activity per year, and assuming this remains broadly similar moving forward, this gives an **estimated ongoing cost of £127,000 per year**.

Ongoing Costs of Confirming a Member Has Sought Guidance

- We allow for the time spent by a pensions administrator checking the member-provided evidence and confirmation that they have sought guidance (as instructed) due to their transfer request being suspected of a potential scam. We estimate a wage of £19.48²⁹⁸ for a pension administrator's time, taken from the Annual Survey of Household Earnings (2017)²⁹⁹.
- At this stage, it is difficult to quantify with certainty how long this task would take until policy detail regarding the nature of the required evidence is confirmed. However, we have made an initial assumption allowing 15 minutes for this task, as it is expected to be a relatively straightforward task for an administrator reading and processing a member-provided email/form explaining and

²⁹² Detailed below: £127,000 + £96,000 = (Ongoing Costs of Sending Letters to Certain Members) + (Ongoing Costs of Confirming a Member Has Sought Guidance) = £223,000.

²⁹³ The hourly wage for a pension administrator is £15.34, from the ASHE survey 2017 revised. This has been uplifted by 27% to account for non-wage costs as proposed in the HM Treasury's Green Book.

²⁹⁴ ASHE 2017 - [Link](#)

²⁹⁵ The hourly wage for a "professional" is £20.03, from the ASHE survey 2017 revised. This has been uplifted by 27% to account for non-wage costs as proposed in the HM Treasury's Green Book.

²⁹⁶ Royal mail website quotes £1.10 to send a letter internationally via economy internal post. A previous impact assessment from 2014 (https://www.legislation.gov.uk/ukia/2014/406/pdfs/ukia_20140406_en.pdf) quoted 4p per envelope and 8p to print.

²⁹⁷ The hourly wage for a pension administrator is £15.34, from the ASHE survey 2017 revised. This has been uplifted by 27% to account for non-wage costs as proposed in the HM Treasury's Green Book.

²⁹⁸ The hourly wage for a pension administrator is £15.34, from the ASHE survey 2017 revised. This has been uplifted by 27% to account for non-wage costs as proposed in the HM Treasury's Green Book.

²⁹⁹ ASHE 2017 - [Link](#).

confirming that they have taken on board the relevant, to be confirmed at secondary legislation, scam-related guidance.

- Given the aforementioned estimated 19,775 transfer requests which were suspected of scam activity per year, and assuming this remains broadly similar moving forward, this gives an **estimated ongoing cost of £96,000 per year**.

Familiarisation costs

As mentioned earlier, there is a lot of information already available to providers/schemes, so we assume most will already be following some of the proposed regulations and are therefore familiar with it. Familiarisation will only be an additional cost for professionals over the baseline scenario where:

- They are asked for a transfer of pension benefits by a member; *and*
- They have been asked for a transfer by a member previously and are therefore already familiar with the current process. If a scheme has never had to complete a transfer we assume there would be no additional costs for familiarisation over the baseline since the new documentation would be a similar length, if not simpler and the trustee / administrator would never have read the document before the transfer request.

We estimate a cost to familiarisation of **around £463,000**. This is based on:

- Yearly scheme returns received by The Pensions Regulator estimate there are around 200 unique service providers for Defined Contribution (DC) trust based schemes, around 185 contract based schemes who administer DC pensions, around 1,000 self-administered schemes (with 12+ members)³⁰⁰ and around 20,000 self-administered micro schemes (with 2-11 members)³⁰¹ who will all need to undertake familiarisation.
- The Pensions Protection Fund (PPF) Purple Book³⁰² estimates there are around 5,500 private sector Defined Benefit (DB) schemes. Data provided by TPR shows that around 80% of these schemes use a service provider. As many service providers administer both DC and DB schemes, we are assuming that familiarisation for these schemes is already accounted for by the unique 200 service providers. Therefore, only the around 1,150 self-administered schemes will need to undertake familiarisation.
- For each of these, we have made an arbitrary assumption that it would take an individual 60 minutes to familiarise themselves. At this stage, it is difficult to quantify with certainty how long this task would take until policy detail is confirmed and more evidence is available. Given a wage of £19.48 for a pension administrator (with the larger administrators needing 5 individuals³⁰³) to familiarise themselves this gives an estimated cost of around £463,000.

Additional revenue to schemes/providers through charges of members' money remaining in their pension pots

- If money lost to scammers had been retained in pension benefits providers would benefit from additional pension charges paid by members. In 2017/18, there were 253 cases of pension fraud

³⁰⁰ This data is unpublished and provided directly from TPR. The data is an estimate as schemes are only required to provide scheme returns every three years, therefore the data could be up to 4 years old and the figure could be slightly different.

³⁰¹ <http://www.thepensionsregulator.gov.uk/doc-library/dc-trust-presentation-of-scheme-return-data-2018.aspx>, File 5

³⁰² https://www.ppf.co.uk/sites/default/files/file-2018-12/the_purple_book_web_dec_18.pdf

³⁰³ Information provided during the previous consultation, which we will test during the legislative process.

recorded by Action Fraud, and a total of over £23million lost to pension scammers³⁰⁴. Based on the average pension charge of 0.57%³⁰⁵ multiplied by the estimated amount that was lost to scammers in 2017/18 gives a potential benefit to providers of **around £132,000**.

This gives ongoing costs of around £420,000 for the employment link; £15,000 for QROPS administration costs; and £223,000 'suspicious transfer'-related administration costs. As well as £463,000 in one-off familiarisation costs and £730,000 one-off 'suspicious transfer'-related administration costs, this all gives a total cost to pension providers and schemes of £1,851,000 in year 1, and £658,000 in all subsequent years (as familiarisation and other one-off costs won't apply). With an expected benefit of retaining member's pots of £132,000, this gives an **expected impact on pension providers/schemes of £1,719,000 in year 1, and £527,000 in all subsequent years**.

Sponsoring employers

If the process to prove the employment link were as described above, the employer would be contacted by either the trustee or the provider of the ceding scheme to provide evidence of the employment link. If we assume the employer must provide both a standard letter stating that they are the sponsor of the scheme the member wishes to transfer their pension benefits to, and that they must also provide a copy of the schedule of contributions or payment schedule to the trustee or provider. We estimate this would cost employers **around £239,000**. This is based on:

- 15 minutes to complete both a standard letter confirming and to locate a copy of the schedule of contribution or payment schedule, at a wage of a pensions administrator of £19.48, as discussed above. This gives a cost of around £361,000.
- 2 letters being sent at a price of £0.79 per letter¹³ for each of the 74,216 transfer requests. This gives a cost of around £117,000.
- Under the current process this will already be supplied by some employers where providers follow the Code of Good Practice. We have assumed that 50% of transfer requests will already have providers/managers communicating with employers and employees to prove the existence of an employment link (as explained earlier). Therefore, logically we also assume that 50% of transfer requests will involve an employer confirming to that provider that they are the sponsoring employer. This gives an assumption of £479,000*0.5, therefore £239,000³⁰⁶.

We therefore expect **the impact on sponsoring employers to be around £239,000**.

Impacts on members

Members retaining their pension pot

The rationale for policy intervention is to protect savers from pension scams, and ultimately prevent lost retirement income. Therefore, we expect there to be a significant personal benefit for the relatively small minority of pension scheme members who would have lost money through scams in the counterfactual scenario without the proposed regulations. As set out above, the average loss per member may be £91,000⁴, which could be the benefit where a scam is prevented. This figure, calculated by Action Fraud, is based on a total of 253 victims reported to Action Fraud that they had lost more than £23 million to pension

³⁰⁴ <https://www.actionfraud.police.uk/news/victims-of-pension-fraudsters-lost-an-average-91k>

³⁰⁵ DWP Pension Charges Survey 2016

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/652086/pension-charges-survey-2016-charges-in-defined-contribution-pension-schemes.pdf

³⁰⁶ Note slight difference in figures is due to rounding.

scammers in 2017. This figure illustrates the potential benefit to members of retaining their pension pot if all scams were to be prevented.

Administration Costs

In order to establish an employment link and to substantiate transfers to a QROPS, the member will have to supply certain documents. If we assume for the employment link that a member has to supply payslips and bank statements for three months, we expect there to be a small time cost to collate this information, and then the cost of £0.79¹³ to send one envelope containing all this information.

If we assume to transfer into a QROPS a member would need to supply some proof of residency, we expect there to be a small time cost to locate this information, and then the cost of £1.37¹⁷ to send one envelope containing this information.

Although there is a time cost attached to supplying this information, we expect this time to be relatively short as these documents are often required for other purposes and members are therefore likely to have knowledge of where they are. Therefore, we do not expect this cost to be overly burdensome relative to other tasks members must routinely carry out in relation to their pension benefits.

A certain subset of individuals (those requesting transfers containing indicators it is at risk of being a pension scam) will, upon being instructed by the trustee to seek guidance, have to spend additional time confirming they have taken guidance by providing the prescribed evidence needed. If we assume this process involves the relevant members completing an electronic confirmation (email/form) to confirm and detail the relevant guidance they have taken, then this process would likely have a small time cost to either complete a confirmatory online-form or to draft a confirmatory email.

Small and Micro Business Assessment

The costs to business fall predominantly on pension schemes and providers, and in certain circumstances on employers- including small and micro businesses who operate small and micro pension schemes. However, assessing the impact of the regulations on this group is difficult, as it is not necessary that small and micro pension schemes correspond to small and micro businesses. For example, many large firms may run Executive Pension Plans with only a few members. Similarly, small employers may enter their staff in larger master trust schemes. For the part of the legislation that applies to pension schemes and providers, as there is currently no robust evidence to link pension scheme size to employer size, it is difficult to accurately assess the impact on small and micro businesses.

All pension schemes within the industry will need to familiarise themselves with the regulations, although many use administrators who will do this instead. We estimate that 19,658 micro schemes will need to familiarise themselves with the regulations. This is about 88%³⁰⁷ of the unique businesses who will need to familiarise, and therefore the majority of familiarisation costs fall to micro schemes. However, this is not disproportionate to the industry as a whole, where 80%³⁰⁸ of schemes are micro schemes. Those schemes, which are self-administering, will pay a familiarisation cost estimated to be £19.48, while those who use an administrator this cost will be met by the administrator (whose service they are already paying for). Therefore, we do not believe familiarisation to have a disproportionate impact on micro schemes.

³⁰⁷ 19,658/22,237=0.88 (figures previously calculated above)

³⁰⁸ 29,900 micro schemes/37,410 scheme [29,900 micro schemes, 1,280 DC trust schemes, 740 hybrid schemes, 5,500 DB schemes]=0.8 (figures from TPR DC trust stats: <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-presentation-of-scheme-return-data-2018-2019>; and PPF purple book: https://www.ppf.co.uk/sites/default/files/file-2018-12/the_purple_book_web_dec_18.pdf)

Administration costs will arise each time a member wishes to transfer their pension pot to one of the specified destinations, of which we estimate 160,000 per year. We estimate only 0.6% of these member transfers to be from a micro scheme³⁰⁹. This is not disproportionate to the industry as a whole where only 0.5% of members are in micro schemes³¹⁰. Given the average number of 4 members in a Small Self-Administered micro scheme (SSAS)³¹¹, we anticipate up to around 250 schemes per year³¹² will be subject to administration costs.

Certain employers will bare an impact of the legislation where they need to provide evidence of the employment link to facilitate the transfer. This will only apply to employers in a situation where an employee requests a statutory transfer, and therefore will not apply to all employers. We have no evidence regarding the destination of the transfer requests size of employer, and no information to suggest that a disproportionate number of member transfers will be moving to small employer’s schemes. Therefore, we do not believe there to be a disproportionate impact on small and micro businesses of the employment link criteria on employers.

Monitoring and Evaluation

We will work with TPR and the industry in order to understand and review the post implementation impact.

Summary of total costs and benefits³¹³

The total estimated cost for this measure in the first year is **around £1.96m**, which is comprised of £463,000 in familiarisation costs, £729,000 in one-off administration costs, £898,000 in ongoing administration costs (£658,000 to providers, £239,000 to employer) and savings to business of £132,000.

Costs in each subsequent year would be **around £766,000**, with £898,000 in administration costs (as above) and savings to business of £132,000. Familiarisation costs and one-off administrative costs would not apply in subsequent years.

The costs and benefits to members have not been included in the final costs and benefits as they are outside the scope of the business impact target.

The estimated annual net direct cost to business (EANDCB) in any one year is **£0.8m**.

Table of Impacts

Costs				
Type	Affected Party	Amount	In scope of EANDCB	Ongoing/ One- off
Familiarisation	Provider	£463,000	Y	One- off
Administration	Provider	£729,000	Y	One-off
Administration	Provider	£658,000 ³¹⁴	Y	Ongoing
	Employer	£239,000	Y	Ongoing

³⁰⁹ 1,000/160,000=0.006

³¹⁰ 86,000/16,819,000=0.005 (figures from TPR DC trust stats: <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-presentation-of-scheme-return-data-2018-2019>)

³¹¹ 87,000 members/19,658 schemes=4

³¹² 1,000/4=250

³¹³ Figures may not line up exactly due to rounding

³¹⁴ (Establishing Employment Links: £420,000) + (Sending Letters to Certain Members: £127,000) + (Confirming Certain Members Have Sought Guidance: £96,000) + (Process Transfers into QROPs: £15,000) = £658,000 to the nearest £1000.

	Individuals	£424,000	N	Ongoing
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Benefits				
Type	Affected Party	Amount	In scope of EANDCB	Ongoing/ One-off
Charges on retained pots	Provider	£132,000	Y	Ongoing
Retained pension pots	Individuals	£23,000,000	N	Ongoing

Total Costs		Total Benefits		Total Impact
Gross costs	£2,515,000	Gross benefits	£23,132,000	
EANDCB (year 1)	£2,090,000	EANDCB (year 1)	£132,000	£1,958,000
EANDCB (subsequent years)	£898,000	EANDCB (subsequent years)	£132,000	£766,000

Sensitivity Analysis

There is considerable uncertainty associated with the estimates, given the lack of available evidence. The most sensitive assumptions are those on baseline compliance with the Code of Good Practice, the number of transfers, the scope of familiarisation, and amount of time required to perform the relevant administrative tasks.

Compliance with Code of Good Practice

Administration costs specifically regarding the employment link and QROPS are key drivers of pension provider costs in all years of the policy except for the first. The most sensitive estimate is that 50% of schemes already complying with the regulations under the code of good practice. As discussed above, this is an arbitrary figure, taking the mid-point of the percentage of schemes who may already be compliant. This could in theory range from all schemes (and in following through all employers) being compliant already to none. Therefore, if all schemes (and employers) were compliant already under the code of good practice would give a cost of 0 to both. If no schemes (employers) were compliant under the code of good practice, this would give a cost of around £840,000 to schemes/providers, and £420,000 to employers. The actual cost could be anywhere within this range, and our best estimate given the lack of evidence would be the mid-point.

Scope of familiarisation

The cost of familiarisation is a key driver for the costs in the first year of the policy. The main sensitivity around this is the number of schemes/providers who will need to undertake familiarisation. We are confident in the figures for DC schemes, which were provided by TPR and are based on the annual scheme return data they collect³¹⁵. However, with a lack of data available on the number of DB schemes who use a service provider (and the overlaps between these service providers and those used by DC schemes) there is a considerable amount of uncertainty around the familiarisation scope. We have made a conservative

³¹⁵ Although scheme returns are provided to TPR each year, a scheme is only required to update their information every 3 years. Therefore, this data could potentially not reflect the current market, although as changes are not significant year on year is still a good indication of the market.

estimate that all DB scheme using a service provider are already accounted for in terms of familiarisation. However, in a situation where none of them are already accounted for and they all self-administer, this would mean around all 5,500 DB private sector schemes would need to familiarise. This would increase the total cost of familiarisation for all schemes in year 1 from around £463,000 to around £550,000.

Time assumptions

The key time estimates used are the amount of time required for familiarisation; the time required to produce evidence of the employment link and QROPs, and the time required for administrators (in the event of suspicious transfers) to instruct members to seek guidance and process the member-provided evidence that they have done so.

For familiarisation, we estimate it would take 1 hour per scheme, with five individuals needing to familiarise within larger providers. This estimate was based on information provided by a small number of stakeholders during the previous consultation³¹⁶. This estimate could change if the policy detail and length of regulations change. If this estimate were to increase to 2 hours per scheme, this would double the cost of familiarisation to £926,000. This estimate could increase to a reasonably large amount of time and the impact on the policy would remain below the £5m de minimis. If familiarisation were to take a full day (8 hours), this would bring the cost of familiarisation to £3.7m.

It is difficult to estimate the amount of time required to undertake the administrative tasks due to a lack of evidence, therefore we have made an arbitrary assumption that it would take 15 minutes of a pension administrators time, 15 minutes of an individual's times and 15 minutes of an employer's time to collate the relevant documents (as described above). In the event of a transfer request being deemed suspicious, we have also made an initial assumption that it would take 20 minutes of an administrator's time to process and send the pre-prepared letter template, as well as a further 15 minutes allowed for the administrator to check the member-provided email/form confirming and evidencing that they have sought the relevant anti-scam guidance. We also allow 30 minutes for the member in question to provide additionally requested evidence to trustees confirming that have sought guidance. These time assumptions are loosely based on the expected simplicity of the requirements. However, in practice it could take longer than we have estimated, in particular for members, which could vary significantly per individual. If, for example, we took a liberal estimate that it took an hour for each of the above tasks, this would increase the total impact to £4.2m in year 1 and £3.0m in all subsequent years.

Number of transfers

The number of transfers is a key cost assumption. There are a number of caveats to this assumption that should be taken into account. Mainly, we do not have data for the number of transfers into DC and DB occupational pension schemes and are therefore using transfers out of DB and DC occupational pension schemes as a proxy, therefore the figure has potential to fluctuate. Transfers out of DB pension schemes April 17-March 18 was estimated to be 100,000. Transfers out of DC occupational pension schemes January 18-December 18 was around 60,000. This gives a total number of transfers of 160,000.

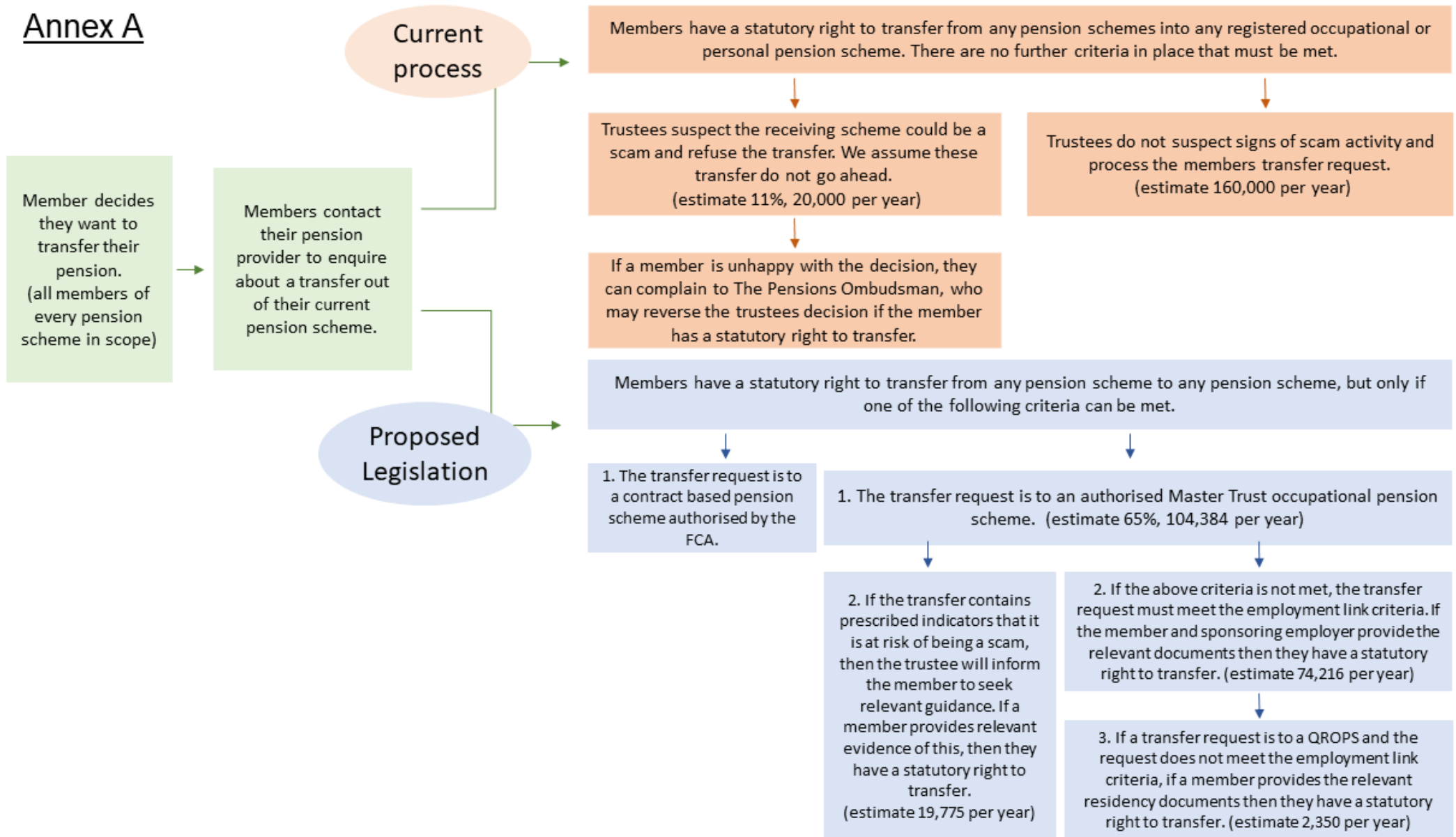
If we assume that this figure increased by 10%, then we would expect there to be 176,000 transfers per year. This would increase the total business cost of the measure to £2.0m in year 1 and £855,000 in all subsequent years. If we assumed a decrease of 10%, then we would expect there to be 144,000 transfers per year. This would decrease the total business cost of the measure to £1.9m in year 1 and £677,000 in

³¹⁶ <https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation>


all subsequent years. The percentage increase on the number of transfers would remain below £5m costs to business (in nominal terms) in ongoing years up to an increase of 470%.

Therefore, given the above ranges, the policy still remains low cost in relation to the £5m de minimis.

Annex A



Annex J: Member Protection – Administration Charge

 Department for Work & Pensions	<h2>Impact Assessment (Final)</h2>	
Title of measure		Clarification of the coverage of the administration charge definition
Lead Department/Agency		Department for Work and Pensions (DWP)
Planned coming into force /implementation date		Spring/Summer 2019
Origin (Domestic/EU/Regulator)		Domestic
Policy lead		David Farrar / Sinead Donnelly
Lead analyst		Tara Nicholson
Departmental Assessment		Self-certified
Total Net Present Social Value (over 10 year period): £0m	Equivalent Annual Net Direct Cost to Business (EANDCB) (over 10 year period): £0m	Business Impact Status: Non-Qualifying Regulatory Provision
Summary - Intervention and impacts		
<p>Policy background</p> <p>The Government has committed to protect members of occupational pension schemes against high and unfair charges, especially members of defined contribution schemes and those who were automatically enrolled into occupational pension schemes.</p> <p>To deliver this, DWP has made a series of regulations, introduced from April 2015 onwards to:</p> <ul style="list-style-type: none"> • implement a cap of 0.75% (or an equivalent combination charge) on charges in the default arrangements of schemes used for automatic enrolment; • ban a range of other charges deemed inappropriate for an automatic enrolment environment; • and require charges and other costs to be given to members and published. These regulations rely on a definition of “administration charge”, which is contained in Schedule 18 of the Pensions Act 2014. A similar definition, in Section 1 of the Welfare Reform and Pensions Act 1999 underpins equivalent provisions for stakeholder pension schemes. <p>A survey of pension charges, carried out in 2016 after the introduction of the cap, has shown that the default charge cap is protecting members from high charges in the way the Government intended. Charges in default arrangements of schemes used for automatic enrolment are now between 0.38% and 0.54% depending on the type of scheme¹.</p> <p>Issue and rationale for intervention</p> <p>Both DWP² and The Pensions Regulator (TPR)³ produced guidance for trustees to support the introduction of the cap, which covered its scope and application. Despite this and subsequent revisions to guidance, some uncertainty still persists over the full range of costs which are controlled by the cap. This uncertainty could result in inadvertent breaches of the member-protection measures introduced by Government. Such breaches would be detrimental to members as well as the trustees of the scheme, who could face punitive action by TPR. Since the non-legislative approach has not provided sufficient certainty, it is necessary for Government to provide clarity through legislation.</p>		

¹ Pension Charges Survey 2016 [Link](#)

² The charge cap: guidance for trustees and managers of occupational schemes [Link](#)

³ The Pensions Regulator, Using the adjustment measure [Link](#)

Proposed intervention

We are proposing to amend the definition of “administration charge” in Schedule 18 to the Pensions Act 2014 and Section 1 of the Welfare Rights and Pensions Act 1999. The changes will make clear the purpose to which the Government intends the “administration charge” to be put.

In line with the commencement date we will also amend the charge cap regulations⁴ to provide clarity that the costs solely associated with holding physical assets are not subject to the default fund charge cap.

Intended Effects

The changes are intended to help trustees avoid inadvertent breaches of these measures, by reassuring them and their advisers about the intended scope of the definition. This will also help reassure industry that the measures have the same broad scope stated during the passage of the 2014 Act.

It is important to highlight the proposed changes do not alter the existing policy requirements and do not create any new requirements - they only clarify the existing requirements.

Brief description of viable policy options considered (including alternatives to regulation)

Option 1: Do nothing

Not amending the legislation would not address confusion amongst some parts of industry over the actual scope of the administration charge definition and would perpetuate the risk of trustees falling into an unwitting breach of legislation. This will not benefit members or trustees and is not what the Government intended when it introduced these measures.

Therefore “do nothing” is not a viable option.

Option 2: Alternatives to regulations- Issue DWP statutory guidance or TPR regulator guidance

DWP and TPR have already provided guidance but this has not resolved the uncertainty that exists over the scope of the administration charge definition. In addition, such guidance cannot be used to overrule existing primary legislation which would still carry greater weight. It may in fact only create further uncertainty and result in calls from some parts of industry for greater legislative clarity.

Therefore “option 2” is not a viable option.

Option 3: Amend the legislative definition of “administration charge”

By amending the legislation to clarify the definition of “administration charge” we can address immediate uncertainty amongst some trustees and their advisers over the scope of our charges measures. This should negate the risk of inadvertent breaches of the charges measures to the benefit of both trustees and pension scheme members.

Therefore ‘option 3’ is the preferred option.

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

Our assessment is that there will be no impact on business because the measure is providing clarity on the existing policy intent. The associated secondary legislation will result in no net cost to businesses on this basis. The policy has been costed in previous legislation and thereby all impacts of the policy on business now sit within the counterfactual (more detail is in the Charges in Qualifying Pension Schemes Impact Assessment, published in 2014⁵), and so there will be no additional costs.

We expect that some schemes (and eventually their sponsoring businesses) will benefit from the clarification / reduced uncertainty from:

- reduced familiarisation costs, and

⁴ SI 2017/774 The Occupational Pension Schemes (Charges and Governance) Regulations 2015

⁵ Charges in Qualifying Pension Schemes Impact Assessment 2014 [Link](#)

- reduced risk of misinterpreting the requirements and incurring any costs associated with misinterpretation.

The Department for Work and Pensions (DWP) will review this assessment at the secondary legislation stage, and, if required, will produce an updated impact assessment.

We assess it to have no impact on members or any other subgroups on the basis that the proposed measure is for maintaining the existing policy only.

Departmental Policy signoff (SCS):	Fiona Walker	Date:	22/11/2018
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Economist signoff (senior analyst):	Rhys Cockerell	Date:	23/11/2018
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Better Regulation Unit signoff:	Prabha Mistry	Date:	26/11/2018
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Annex K: Climate Change Risk – Governance and Disclosure

Title: Climate Change Risk – Governance and Disclosure (TCFD) IA No: Lead department or agency: Department for Work and Pensions Departmental Assessment: Self-Certified Other departments or agencies: N/A	Impact Assessment (Enactment)
	Stage: Enactment
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: andrew.blair@dpw.gov.uk (Policy) thomas.drissi@dpw.gov.uk (Analysis)
Summary: Intervention and Options	

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status
-£40.4m	-£40.4m	£4.7m	Non Qualifying Provision
What is the problem under consideration? Why is government intervention necessary? <p>Climate change is expected to have a significant impact on pension schemes’ assets, both due to the physical risk associated with a warmer planet and the transition risk that movement towards a low carbon economy brings in the form of lower valuations of many sectors of the economy. As long-term investors, pension scheme trustees should be especially alive to these risks. At present, evidence suggests the market does not fully price-in climate risk meaning many assets pension schemes hold may be mispriced⁶. As a result, there is a risk that, without intervention, members of pension schemes may be overexposed to the financially-material risks of climate change, which ultimately impacts their expected outcomes in retirement. Whilst trustees of pension schemes are already required to consider all financially-material risks as part of their fiduciary duty, the Government is seeking to strengthen and clarify the focus on climate change by proposing steps to require increased analysis and consideration of climate change embedded in the decision making process of trustees, as well as requiring the disclosure of climate risk information.</p>			

⁶ Chapter 5, 'Climate Change: Physical Risks and Equity Prices', IMF Global Financial Stability Report, April 2020. <https://www.imf.org/en/Publications/GFSR/Issues/2020/04/14/global-financial-stability-report-april-2020#Chapter5>

What are the policy objectives and the intended effects?

The policy objective is to ensure effective governance of climate change as a financially material risk and opportunity to pension schemes and their members’ savings.

Government is proposing to mandate trustees of larger occupational pension schemes to align their climate governance activities and disclosures with the international industry-led recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)⁷. This will place trustees’ pre-existing fiduciary duty to take into account climate change on a more detailed statutory footing, so trustees embed climate risks and opportunities into their scheme’s governance, strategy, risk management, and disclosure.

The intended effect is a UK pensions system that has resilience to both transition and physical climate risk, in the same way that interest rate or inflation risk are embedded in decision making processes. The vast majority of members’ savings would then be invested in schemes whose trustees have a specific legal duty to actively consider and mitigate against the risks (and potentially opportunities) a transition to a low carbon economy brings – ultimately improving their expected outcomes in retirement.

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

Do Nothing – Trustees of the majority of UK occupational pension schemes do not currently have plans to implement the TCFD recommendations and disclose against it. This would mean that climate change has the potential to put at risk the delivery of members’ benefits. This would also mean that were requirements to exist in the future on other financial actors such as listed companies, but not on pension schemes, this would result in an unaligned UK regulatory framework on climate change for pension schemes relative to other financial market participants.

Guidance Only - A non-mandatory policy option; issuing guidance to trustees on how to take into account climate change risks and opportunities. Without regulation trustees are not likely to take the necessary action with the necessary urgency and coverage.

Mandatory TCFD by 2023 for large and medium-sized schemes (Preferred) –trustees of all Occupational Pension Schemes (OPS) with £5bn or more in assets, and TPR-authorized schemes, disclose in line with TCFD by the end of 2022, followed by all OPS with £1bn or more in assets a year later. This would ensure that schemes who have the immediate resources and capability properly account for climate change risk and opportunity, and disclose it, first. The staged approach is preferred to allow small/medium-sized schemes to learn from the largest schemes who set industry standards and are in a better position to meet the new requirements and disclose.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 2024

Does implementation go beyond minimum EU requirements?		Yes		
Is this measure likely to impact on trade and investment?		No		
Does this measure comply with our international trade and investment obligations, including those arising under WTO agreements, UK free trade agreements, and UK Investment Treaties?		Yes		
Are any of these organisations in scope?	Micro No	Small No	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions?		Traded:	Non-traded:	

⁷ <https://www.fsb-tcfid.org/>

Departmental Policy signoff (SCS): Hilda Massey

Date: 14/08/2020

Economist signoff (senior analyst): Joy Thompson - Deputy Chief
Economist

Date: 07/08/2020

Better Regulation Unit signoff: Prabhavati Mistry

Date: 06/08/2020

Summary: Analysis & Evidence

Phased Mandatory TCFD

Description: Climate Change Risk – Governance and Disclosure (TCFD) – Requiring trustees of pension schemes to have in place effective governance, strategy and risk management processes to manage climate-related risks and opportunities and to disclose information on these, including scenario analysis, metrics and targets, in line with the internationally adopted recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10 years	Net Benefit (Present Value (PV)) (£m)		
			Low: -£26.2m	High: -£62.6m	Best Estimate: -£40.4m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£0.0m	Years 1 & 2 (Phased Rollout)	£3.2m	£26.2m
High	£0.1m		£7.6m	£62.6m
Best Estimate	£0.1m		£4.9m	£40.4m

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

Pension Schemes In Scope:

Minor transition costs of all trustees familiarising themselves with the requirements and accompanying statutory guidance, and
Annual ongoing costs to meet requirements to carry out certain activities, including to produce and publish a TCFD report. The main activities driving total costs are the requirements on trustees to undertake Scenario Analysis activities and the production of Metrics & Targets.

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

The Pensions Regulator:

The Pensions Regulator (TPR) would be responsible for monitoring and enforcing compliance with these requirements. We have engaged with TPR and are working with them to estimate their costs ahead of making any secondary legislation.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate	N/A		N/A	Not Quantitatively Estimated at Consultation Stage

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

The various potential benefits of the requirements are discussed qualitatively (see below). At this stage it would be disproportionate to estimate these potential benefits quantitatively so they have not been monetised, nor therefore included in the Total Net Present Social Value figure.

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

Members of Pension Schemes in Scope - estimated 81% of all UK pension scheme members at full rollout

Improved expected retirement outcomes for members of schemes due to increased consideration and potentially better-informed decision making by trustees. Better informed trustees can better manage members’ exposure to financially-material climate change risks, whilst also placing schemes in a better position to take advantage of any investment opportunities that emerge during any transition towards a lower carbon economy. Increased transparency on an issue that research shows UK pension scheme members care about⁸, which may ultimately lead to increased sense of engagement with and ownership of their pension pot.

Wider Society

Reduced negative spillovers if trustees choose to address their exposure to carbon and other transition risks, whether by limiting investment in higher carbon sectors or firms who are less prepared for the low-carbon transition, or by active engagement and voting in relation to firms to mitigate climate-related risks to their investments.

Key assumptions/sensitivities/risks

3.5

We have engaged with relevant industry contacts and estimated a range for sensitivity purposes around the key costs per scheme of completing the requirements for Scenario Analysis and Metrics & Targets.

There is also the potential for the estimated costs to business (pension schemes) to be lower because, in line with DWP’s research and engagement with the industry, there is a non-negligible number of schemes in scope that are already doing some or all of the recommended TCFD-related activities voluntarily. The estimated costs to business may be lower if these

Policy Background

Climate Change Risk

1. Climate change poses an existential threat to our planet and our society¹, and the UK Government is committed to action to prevent it. In 2019, the Government set the target of achieving net-zero greenhouse gas emissions by 2050². Alongside its commitments as a signatory of the Paris Agreement³, the UK is a world leader in commitments to transition to a low carbon economy.
2. Occupational pension schemes (OPS) in the UK hold almost £2tn in assets⁴, with the figures set to grow with the success of automatic enrolment. This makes OPS the largest single group of institutional investors in the UK and with significant influence over the flow of investments in the economy. Coupled with their long-term investment horizons, this means they are particularly susceptible to the impacts of climate change in the next 5, 10 and 30 years. Conversely, it also means OPS are uniquely placed to invest in the financial

⁸ Navigating ESG: a practical guide - <https://www.dcif.co.uk/wp-content/uploads/2018/04/navigating-esg-final-lo-res.pdf>

¹ Leading on Clean Growth (October 2019). [Link](#).

² <https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law>

³ <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

⁴Figure 4.1 Purple Book 2019 ([LINK](#)), Table 3.1 TPR Scheme Return ([LINK](#)).

opportunities that are emerging, and will continue to emerge, to drive us towards a lower carbon economy.

3. Climate change risks manifest themselves in the form of physical and transition risks. All pension schemes are exposed to these climate-related risks. As with interest rate risk, inflation risk, insolvency risk etc., trustees of occupational pension schemes are bound by their fiduciary duty to act to protect their beneficiaries against risk and deliver them a return on their savings.
4. The UK is a signatory of the Paris Agreement⁵. In 2019, the Government wrote into law the target of achieving net-zero greenhouse gas emissions by 2050⁶.
5. Trustees of pension schemes need to take into account the risks that are associated with this transition and the investment opportunities that are available to them. The emergence of transition risks and opportunities will inevitably impact the viability of current investments but will also require schemes to set out a strategy – to have a plan – to enable them to navigate the transition to ensure they deliver their members a sustainable retirement income, protected effectively against climate change risks.
6. The Government acknowledges that the impact of COVID-19 on society and the economy has meant that many pension schemes have shifted their focus to the short-term operational challenges, and threats to their funding/investment strategy. The Government is however clear the threat of climate change has not gone away. Indeed, the current crisis has brought into sharp focus the importance of financial resilience and strengthened the case for government intervention.

Rationale for Intervention

Building on existing requirements

7. Trustees of pension schemes must act in the best financial interests of the beneficiaries of the ‘trust’, the scheme members, and deliver an appropriate financial return – this is part of a legal duty known as their ‘fiduciary duty’. Accounting for the risks and opportunities associated with climate change falls within fiduciary duty.
8. A recent consultation on guidance⁷ for trustees to align their scheme with the TCFD recommendations, sets out the three core aspects of fiduciary duty that relate to climate:
 - Exercising investment powers for their proper purpose.
 - Taking account of material financial factors - their duties are not limited to “traditional” factors such as interest rate, exchange rate, or inflation risk.
 - Acting in accordance with the “prudent person” principle –trustees must consider likely future climate scenarios, how these may impact their investments and what a prudent course of action might be as part of their scheme’s risk management framework.

⁵ <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

⁶ <https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law>

⁷ <https://www.gov.uk/government/consultations/aligning-your-pension-scheme-with-the-tcf-recommendations>

9. In June 2018, the Government consulted on measures to strengthen and clarify the role of fiduciary duty in relation to financially material factors such as climate change and other environmental, social and governance (ESG) factors⁸.
10. In September 2018, the Government then introduced regulations⁹ to require trust-based pension schemes with at least 100 members (and defined contribution 'DC' schemes with a default arrangement, irrespective of membership, subject to certain exceptions) to have a policy on all ESG factors that it deemed financially material to their investments, including but not limited to climate change. Since October 2019, trustees of DC schemes have been required to publish the policy in the scheme's Statement of Investment Principles (SIP).
11. From October 2020, trustees of DC schemes must also publish an implementation statement alongside their SIP which sets out how they have followed their ESG and climate change policy. Similar requirements will apply to defined benefit schemes (DB) in October 2021.

Response to Government regulation so far

12. Reaction to Government regulation in this area so far has been broadly positive. The pensions law firm Sackers¹⁰ in August 2019 found that 85% had already updated, or would update their SIP for compliance purposes, but that only 13% had made or intended to make material changes to their investments. The Society of Pensions Professionals found¹¹ that for 38% of members, the approach taken by most clients was tick box only, although they also found that 57% thought their clients had a genuine interest in ESG but had simply not changed their portfolio yet.
13. There is therefore evidence to suggest that whilst those who have complied have made significant progress, some trustees have been slower on the uptake and have not made substantial changes to their governance, risk management and strategy processes.
14. The Pensions Regulator (TPR)'s DC schemes survey¹² found that only 21% of schemes took climate change into account when formulating their investment strategies and approaches. From the research conducted by TPR¹³, it is understood that those schemes who have failed to comply so far and are perhaps facing challenges in response to what Government has required them to do, tend to be at the smaller end of the defined contribution market – this has caused the Government to consider phasing the proposals (see Options section).

Improving current level of disclosure

15. In October 2019, the Minister for Pensions and Financial Inclusion wrote to the 40 largest defined benefit (DB) schemes and the 10 largest defined contribution (DC) schemes on the

⁸ Clarifying and strengthening trustees' investment duties: The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations – <https://www.gov.uk/government/consultations/pension-trustees-clarifying-and-strengthening-investment-duties>

⁹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018. <https://www.legislation.gov.uk/uksi/2018/988/contents/made>

¹⁰ Sackers ESG survey for pension schemes – <https://www.sackers.com/app/uploads/2019/09/Sackers-ESG-Survey-Summary-Report.-August-2019.pdf>

¹¹ Putting ESG into practice: the SPP member research series <https://the-spp.co.uk/wp-content/uploads/2020/01/SPP-ESG-report-paper-FINAL-January-2020.pdf>

¹² Defined Contribution trust-based pension schemes research: report of findings on the 2019 survey <https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dc-research-summary-report-2019.ashx>

¹³ Defined Contribution trust-based pension schemes research (May 2019). [Link](#).

topic of ESG and TCFD. Just 42% of respondents stated that they had produced a TCFD report or had plans to do so in the next year.

16. The rate is likely to be much lower amongst those schemes with fewer than £5bn in assets (for DB) and £1bn in assets (for DC), the approximate threshold for schemes receiving the letters. This suggests that the vast majority of schemes are not yet fully taking into account climate change and disclosing how they have done so to their members and the public.
17. The Government’s proposed approach is therefore to ensure that schemes in scope meet a minimum standard in terms of climate change governance and disclosure, by mandating the TCFD recommendations with enforcement powers. This will mean only limited change for the aforementioned 42% of large scheme respondents who already disclose in line with TCFD or are actively planning to do so. For the 58%, and medium-sized schemes who do not already have plans to disclose in line with the TCFD recommendations, these new requirements will help to protect members’ benefits and employer liabilities against climate change transition and physical risk and ensure the scheme is well-positioned to take advantage of green investment opportunities.

Options considered

	Do Nothing	Guidance Only	Phased Mandatory TCFD (Preferred)
Governance	Covered by Fiduciary Duty	Covered by Fiduciary Duty	Codified standard in regulation
Strategy	Covered by Fiduciary Duty	Covered by Fiduciary Duty	Codified standard in regulation
Risk Management	Covered by Fiduciary Duty	Covered by Fiduciary Duty	Codified standard in regulation
Metrics and Targets	No requirement	No requirement	Required
Scenario Analysis	No requirement	No requirement	Required
Guidance issued?	No	Yes	Yes (statutory)

Description of other options considered

Do nothing

18. The Government has considered the option of not introducing regulation to require TCFD-compliant disclosures by occupational pension schemes. However, there are several reasons why the ‘Do Nothing’ option is not preferred.
19. As detailed in Paragraphs 15 to 17, the current take-up of voluntary TCFD disclosures is low and isolated amongst the very largest, most engaged pension schemes. If nothing is done to change the coverage, the majority of pension savers will not be in a scheme that has an effective and transparent system of governance of climate-related risks and opportunities.
20. Choosing not to require occupational pension schemes to disclose in accordance with the TCFD recommendations would also place the sector at odds with the other actors in the investment chain. The Financial Conduct Authority are currently consulting on rules to

implement the TCFD recommendations for UK listed companies¹⁴. Given that most UK pension schemes invest significantly in UK listed equities, such a divergence of governance and disclosure requirements would create a patchwork of misaligned regulation through the investment chain.

21. Independent of the rest of the investment chain, without pension schemes taking action to reinforce their investment strategy against the climate risks they have identified, which is one key aspect of the TCFD recommendations, those investments are at risk financially. One particular likely outcome is known as “*stranded assets*”¹⁵, as described in the Pensions Climate Risk Industry Group guidance¹⁶.
22. Ultimately, for defined benefit schemes, this could lead to significant deficits on the balance sheets of the sponsoring employer, or in the case of defined contribution schemes, a material negative impact on returns. Both outcomes could leave savers with lower retirement income, potentially leaving other schemes to support members via increased Pension Protection Fund levy contributions for the Government to support pensioners via state support.

Option 2 – Guidance only

23. The Government has also considered a less comprehensive non-mandatory policy option; issuing further guidance to schemes on how to take into account climate change risks and opportunities.
24. This option, would not confer any new responsibilities or duties on occupational pension scheme trustees. Instead the guidance would be published by the Department with the objective of increasing the standard of governance of climate change as a financial risk in the industry. The basis for the guidance would be similar to that which the Pensions Climate Risk Industry Group (‘PCRIG’) has already consulted on¹⁷.
25. Whilst industry engagement indicates that the guidance would be well received by pension schemes and their advisers, as was seen at the launch of the PCRIG consultation in March 2020, the lack of statutory weight behind the guidance would not be expected to result in the level of compliance and implementation that the policy objective requires.
26. This option would not require trustees to do anything specific in relation to their management of climate change risks and opportunities, beyond complying with their general fiduciary duty. Without regulation, as cited in evidence from responses to the Minister for Pensions and Financial Inclusion’s letters, schemes are not likely to take the necessary action with the

¹⁴ CP20/3: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations - <https://www.fca.org.uk/publications/consultation-papers/cp20-3-proposals-enhance-climate-related-disclosures-listed-issuers-and-clarification-existing>

¹⁵ <https://carbontracker.org/terms/stranded-assets/>

¹⁶ Page 17 of aligning your pension scheme with the TCFD recommendations.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/877305/aligning-your-pension-scheme-with-the-TCFD-recommendations-consultation-guidance.pdf

¹⁷ Aligning your pension scheme with the TCFD recommendations.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/877305/aligning-your-pension-scheme-with-the-TCFD-recommendations-consultation-guidance.pdf

necessary urgency and coverage putting pension schemes and savers at risk of loss due to climate change.

- 27. Whilst schemes adhering to their fiduciary duty already should have effective systems of governance of all financially-material risks, including climate change, there is no clear fiduciary requirement to carry out scenario analysis and the calculation of metrics and targets which are essential to a scheme's ownership of climate-related risk.
- 28. Moreover, without mandatory disclosure requirements, the policy objective of ensuring members are aware of their scheme's processes for managing their exposure to climate-related risks and opportunities would be jeopardised. Only a small number of schemes currently disclose information to their members on their climate risk management process, let alone the emissions of their portfolio or the resilience of the portfolio to future warming scenarios.

Preferred Option - Mandatory TCFD by large and medium-sized schemes by 2023

Regulations and Statutory Guidance – TCFD as a Framework

- 29. The preferred option is to use regulations, supported by statutory guidance, to require pension scheme trustees to deliver the TCFD recommendations.
- 30. The guidance would set out an approach that schemes should seek to adopt but allow flexibility where they already have adopted their own approach, meaning no scheme would need to adjust an adequate pre-existing climate framework at significant cost.
- 31. The TCFD framework includes 11 recommendations. These are split into Governance, Strategy, Risk Management and Metrics and Targets.

Core elements of recommended climate-related financial disclosures



Governance

The organisation's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

Risk Management

The processes used by the organisation to identify, assess and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Governance

- 32. The preferred option seeks to require all occupational pension schemes in scope to disclose in line with TCFD recommendations on governance of climate change risk and opportunities

and to carry out the underlying activities which would enable them to do so. Trustees are already required to take into account all financially material risks, including climate change, as part of their fiduciary duty, which therefore necessitates having an effective system for doing so. The assumption in this impact assessment is that all trustees in scope are already complying with pre-existing requirements under their fiduciary duty and have a system for management of financially material climate change risks and opportunities in place.

33. The additional requirement in the area of governance applicable to all schemes in scope would come in writing down and disclosing the system of governance of climate change risks and opportunities that the scheme employs.

Strategy & Scenario Analysis

34. The preferred option would require trustees to describe and disclose the climate-related risks and opportunities identified by trustees or management and to describe the impact of these risks and opportunities on the scheme's investment strategy and financial planning.
35. As with governance above, this is something which trustees should already be doing, within the bounds of fiduciary duty – identifying risks and adapting their investment strategy to such risks.
36. Regulations would also require trustees to produce a scenario analysis which considers at least two scenarios, one of which must be a scenario that includes a transition to a world with a temperature rise '2°C or lower' than pre-industrial levels.

Risk Management

37. The preferred option would require schemes to have effective risk management processes in response to identification of significant financially material climate risks, which are uncovered by the strategy requirements described above, and to disclose the process itself. As with governance, all but the disclosure should form part of the scheme's risk management currently, as part of fiduciary duty.

Metrics & Targets

38. A key part of the TCFD recommendations is for organisations to calculate their carbon footprint and use metrics to track their management of climate change risks and opportunities, including through the setting of targets. The preferred option proposes to require that trustees must, as far as they are able, obtain data required to calculate their chosen metrics and disclose their calculations. It is also proposed that they must set at least one target relating to their chosen metrics, measure performance against the target(s) as far as they are able and disclose this information.

Disclosure

39. The preferred option is to require that the TCFD report is published on a publically available website accessible free of charge and that the Annual Report and Accounts must include a link to the website address. Trustees would have a duty to tell members via the annual benefit statement that their TCFD reports have been published, and where they can locate

them. We propose to also require trustees to provide TPR with the full website address of the published TCFD report in their annual scheme return.

Penalties

40. The preferred option is for compliance notices, penalties and third-party compliances to generally be administered at TPR’s discretion. We are proposing to require that TPR must only issue a mandatory penalty where trustees had produced no TCFD report at all.

Costs and Benefits to Business

Scope of Proposed Measures

41. In line with the Green Finance Strategy¹⁸ commitment, the Government proposes to initially apply these measures to the largest occupational pension schemes, with assets more than £5bn, along with all authorised master trusts¹⁹ and authorised schemes offering collective money purchase benefits²⁰.

42. A year later, the next tranche of medium-sized schemes would follow, those with assets of £1bn or more but less than £5bn. This phased introduction is detailed in Chapter 2 of the Consultation Document. The timeline proposed is as follows:

The Condition	Governance Requirement	Disclosure Requirements	
<i>If</i>	<i>Trustees must meet the climate governance requirements for</i>	<i>Trustees must publish a TCFD report</i>	<i>Trustees must include a link to the TCFD report from</i>
Phase 1 On 1st scheme year to end on or after 1 June 2020, the scheme has assets ≥ £5bn <i>Or</i> On 1 October 2021, the scheme is an authorised master trust <i>Or</i> On 1 October 2021 the scheme is an authorised scheme providing collective money purchase benefits	Current scheme year from 1 October 2021 to end of that scheme year. <i>And</i> [unless scheme is no longer authorised, and assets are <£500m] Next full scheme year to begin after 1 October 2021 to end of that scheme year.	Within 7 months of the end of the scheme year which is underway on 1 October 2021, or by 31 December 2022 if earlier. <i>And</i> Within 7 months of the end of the next scheme year, or by 31 December 2023 if earlier.	The annual report and accounts produced for that scheme year
Phase 2 On 1st scheme year to end on or after 1 June 2021, The scheme has assets ≥ £1bn	Current scheme year from 1 October 2022 to end of that scheme year	Within 7 months of end of that scheme year, or by 31 December 2023 if earlier.	

¹⁸ <https://www.gov.uk/government/publications/green-finance-strategy>

¹⁹ List of authorised master trusts. <https://www.thepensionsregulator.gov.uk/en/master-trust-pension-schemes/list-of-authorised-master-trusts>

²⁰ In future, as the legal process for establishing authorised CMP schemes in the current Pension Schemes Bill and subject to Parliamentary approval.

43. This phased introduction is estimated by The Pensions Regulator (TPR) to currently capture approximately 103 pension schemes, and approximately 42% of all UK pension assets in phase one. The second phase increases the number of schemes in scope of the requirements to a currently estimated 367 schemes, covering approximately 74% of all UK pensions assets and 81% of all UK members²¹.

44. The Government acknowledges that pension savers have little or no choice over the scheme they are in, and the preferred scope and timing approach will mean that the requirement for effective protection against climate change risks will not apply equally to all pension assets. Therefore, the Government proposes to review the inclusion of smaller schemes in 2024.

Requirements - Costs to Business

Costs to Pension Schemes in Scope

45. During the process of estimating the potential costs to pension schemes, the Department has engaged with the UK pensions industry. This included initial informal roundtable discussions which included a call for estimates of specific elements of compliance costs from those in industry already publishing TCFD reports and carrying out the associated activities, or planning to do so, on a voluntary basis.

46. The elements of costs are divided into:

- familiarisation costs;
- the costs of completing scenario analysis;
- the costs of producing TCFD-aligned metrics & targets;
- the cost of documenting and disclosing their climate change-related practices²²;
- the cost of uploading and signposting a completed TCFD report.

47. As described in the Governance section above, trustees of pension schemes already have a legal duty to act in the best interests of the beneficiaries of the 'trust', the scheme members – known as their 'fiduciary duty' – and this impact assessment assumes that all trustees are doing so. Therefore costs associated with meeting fiduciary duty are assumed in the baseline, and not double counted in this impact assessment.

Required Activities - Familiarisation

One-off familiarisation cost to schemes in scope for trustees to read guidance and understand the requirements based on the TCFD recommendations.

²¹ These TPR estimates on the schemes in scope do not include parent, wound-up, non-registerable, gone away schemes, as well as schemes with less than 2 members. Except for DC, where only schemes with 12 or more members were included in the estimates, and also where Micro DC, EPP or DC RSS schemes are also excluded.

²² Trustees would be required to disclose their existing practices about financially material considerations, which are required already in line with their fiduciary responsibilities to account for and managing financially material risks (such as those associated with Climate Change). However, their existing activities accounting for "financially material risks" will benefit from, and be informed by, the additional Scenario Analysis and Metrics & Targets activities completed. This feedback mechanism helps embed the consideration of climate change into the pre-existing processes carried out under their fiduciary duties.

48. There would be one-off costs to all the scheme trustees to familiarise themselves with the new requirements. A pension scheme in scope will experience these one-off costs on the first year in which they are in scope of the requirements.
49. We assume that it would take all trustees of in-scope schemes approximately 3 hours to read and understand the TCFD requirements & guidance. We have assumed the length of requirements & statutory guidance to total approximately 30 pages. We have estimated that schemes in scope of the proposed requirements will have approximately 3 trustees per scheme²³, with an estimated hourly cost (including overheads) of £29.11 per hour²⁴.
50. These total one-off costs to all schemes in scope are estimated to be £27,000²⁵ in year one of the requirements, and then £69,200²⁶ in year two when the second tranche of schemes are brought into scope and need to familiarise²⁷.

Required Activities - Governance

51. Trustees are already required to take into account all financial material risks, including those posed by climate change, as part of their fiduciary duty²⁸. Codifying the requirement explicitly in regulations may help trustees increase the proficiency of their current climate risk governance. However, the assumption in this impact assessment is that trustees who would be in scope are already complying with pre-existing requirements under their fiduciary duty and have a process for management of climate change risks and opportunities already in place.
52. However, there is an additional requirement in documenting and disclosing the system of governance of climate change risks and opportunities that the scheme employs.

Ongoing cost to schemes in scope to document & disclose their governance of climate-related risks and opportunities.

53. The estimated ongoing costs and activities are comprised of three elements. For ‘*Collating Information & Drafting Text*’ we have allowed for an initial 3 hours plus further drafting (typing) time per typical page length of existing Governance TCFD sections²⁹. This work is to be carried out by an administrator. We allow an additional fixed hour plus further reading time per page to enable the administrator adequate time for ‘*Proof-Reading & Checking*’. The time of an administrator, using ONS Earnings & Hours Worked 2019 data, is estimated to cost schemes approximately £14.92 per hour (accounting for overheads).

²³ The Pensions Regulator - Trustee Landscape Quantitative Research, Figure 3.2.2. [Link](#).

²⁴ Based on 2019 Annual Survey of hours and Earnings (ASHE) data for Corporate Managers & Directors. See “Key Assumptions” for further information.

²⁵ Calculations: (3 Hours to Familiarise) * (103 Schemes in Scope) * (3 Trustees Per Scheme in Scope) * (£29.11 Trustee Wage) = £27,000 to the nearest £100.

²⁶ Calculations: ((3 Hours to Familiarise) * (264 Schemes in Scope) * (3 Trustees Per Scheme in Scope) * (£29.11 Trustee Wage) = £69,200 to the nearest £100.

²⁷ See ‘Key Assumptions & Sensitivity Analysis’ for further details.

²⁸ As detailed in the Consultation document: Trustees have a duty to act in the best interests of pension scheme beneficiaries, as well as acting prudently, conscientiously and with upmost good faith, seeking advice where needed. This duty extends to ‘taking account of material financial factors’. Given the nature and likely materiality of the risks posed by climate change, trustees’ fiduciary duty requires them to take it into account.

²⁹ Assumed, based on existing TCFD disclosures, to be approximately 1 page of pure text to the nearest page.

54. We then also allow time for *'Trustee Reading, Discussion & Sign-Off'* for each trustee of a scheme to read through the administrator's work, as well as allowing for an additional hour to enable trustees to discuss the contents (ensuring the disclosure demonstrates how they comply with the new requirements and their pre-existing fiduciary duties) and reach final agreement. We assume the average cost (wages & allowing for overhead costs) of the trustee's time to be £29.11 per hour.

55. The total ongoing costs to pension schemes of this proposed annual requirement is estimated to be approximately £16,500³⁰ in the first year of requirements and £58,800³¹ per year from the second year onwards (once the second tranche of schemes join the initial schemes in scope).

Required Activities - Strategy

Ongoing reporting cost to schemes in scope to document & disclose strategy activities in relation to climate-related risks and opportunities.

56. This includes reporting on both pre-existing strategic activities, as well as reporting on the newly-required scenario analysis activities (covered below).

57. The costs are again comprised of an administrator spending time completing the necessary *'Collating Information & Drafting Text'* and *'Proof-Reading & Checking'* activities, followed by the time for the scheme's trustees to complete any required *'Trustee Reading, Discussion & Sign-Off'* activities³².

58. The total ongoing costs to pension schemes of this proposed annual requirement is estimated to be approximately £19,200³³ in the first year of requirements. The total annual ongoing costs to pension schemes are then estimated to be £68,400³⁴ per year from the second year onwards (*once the second tranche of schemes join the initial schemes in scope*).

Required Activities - Scenario Analysis

59. It is proposed that regulations will require trustees³⁵ of schemes in scope to consider at least two scenarios, one of which must be a scenario that includes a transition to a world with average temperatures 1.5 to 2°C warmer than pre-industrial levels. The information and data generated by undertaking these activities would also, importantly, feed back into and help

³⁰ Calculations: (103 Schemes in Scope) * [(£14.92 Administrator Wage) * (3.2 Collating & Drafting Hours + 1.1 Checking Hours) + (£29.11 Trustee Wage) * (3 trustees per Scheme in Scope) * (1.1 Hours Reading & Sign-Off Time)] = £16,500 to the nearest £100.

³¹ Calculations: (367 Schemes in Scope) * [(£14.92 Administrator Wage) * (3.2 Collating & Drafting Hours + 1.1 Checking Hours) + (£29.11 Trustee Wage) * (3 trustees per Scheme in Scope) * (1.1 Hours Reading & Sign-Off Time)] = £58,800 to the nearest £100.

³² This section is assumed, based on existing TCFD disclosures, to be approximately 3 page of pure text to the nearest page.

³³ Calculations: (103 Schemes in Scope) * [(£14.92 Administrator Wage) * (3.2 Collating & Drafting Hours + 1.1 Checking Hours) + (£29.11 Trustee Wage) * (3 trustees per Scheme in Scope) * (1.1 Hours Reading & Sign-Off Time)] = £19,200 to the nearest £100.

³⁴ Calculations: (367 Schemes in Scope) * [(£14.92 Administrator Wage) * (3.6 Collating & Drafting Hours + 1.3 Checking Hours) + (£29.11 Trustee Wage) * (3 trustees per Scheme in Scope) * (1.3 Hours Reading & Sign-Off Time)] = £68,400 to the nearest £100.

³⁵ As documented and explained in detail in the accompanying Consultation document, the policy of mandatory TCFD is the "as far as trustees are able" approach for Scenario Analysis and Metrics & Targets.

inform other elements of the trustee's pre-existing decision-making and management processes around the financially-material risks of climate change.

60. Our consultation on mandating the TCFD recommendations, which this impact assessment accompanies, does make clear that trustees can, if they deem fit and suitable for the scheme, conduct qualitative scenario analysis, which is less complex and more exploratory than quantitative scenario analysis. This impact assessment assumes that trustees of schemes in the proposed scope would conduct quantitative scenario analysis as this has already become associated with the TCFD recommendations³⁶ and stakeholders with whom we have had informal discussions on impacts have informed us that they plan to carry it out³⁷.

Ongoing cost to schemes in scope to produce and disclose Scenario Analysis in line with the TCFD requirements

61. The costs of reporting and disclosing this in the 'Strategy' section has been accounted for in the Reporting Costs section.

62. We estimate a cost per scheme of £12,000 in a scheme's first year, and £10,800 per scheme per year in following years³⁸ to produce and disclose a quantitative scenario analysis, based on engagement with industry stakeholders. We received information from stakeholders which included estimates of their planned/past cost of carrying out a range of scenario analysis exercises. These estimates contained a range of costs and covered scenario analysis exercises of differing complexity; some included advanced bespoke analysis (e.g. enhanced stress testing) above and beyond the requirements, whereas others estimated the specific costs to comply with the proposed requirements (which were sent to stakeholders along with the request for information). This feedback has informed our estimated costs for a scheme in scope to align with and meet the proposed scenario analysis requirements.

63. The information received from industry ranged from some anticipated scenario analysis exercises budgeted to cost below £5,000, with others at the upper limit of some schemes' estimated ranges (complex, upper-end bespoke modelling and stress testing) being more expensive scenario analysis exercises costing £40,000 and £50,000 respectively. The majority of the estimates, and those where the described activities most aligned with the activities required, were between £10,000 and £17,000.

64. Proportionate sensitivity analysis of these unit costs³⁹ have been considered in the 'Key Assumptions & Sensitivity Analysis' section, and like the central estimates have been informed by the feedback received from industry engagement. The key elements of these costs are expected to relate to the sourcing and acquisition of the required information from

³⁶ <https://www.tcfhub.org/scenario-analysis/>

³⁷ See 'Key Assumptions and Sensitivity Analysis' for further details.

³⁸ See 'Key Assumptions and Sensitivity Analysis' for further details.

³⁹ Scenario Analysis Unit Costs Estimate Sensitivity Analysis: The Upper Limit Estimate of a compliant scenario analysis was £17,500 in the first year, and £15,750 in ongoing years. The Lower Limit Estimate of a compliant scenario analysis exercise £8,000 in the first year and £7,200 in ongoing years.

relevant parties, along with the relevant staff time of the relevant analyst/expertise in carrying out and explaining the analysis.

65. Whilst these costs account for a suitable quantitative scenario analysis compliant with our proposed requirements, the Department acknowledges that there could be higher costs for schemes that may voluntarily go over and above the requirements.

66. In line with these unit costs, and the proposed gradual rollout of schemes in scope, the total cost to all schemes in scope is estimated at £1,236,000⁴⁰ in year one, £4,280,400⁴¹ in year two and then an annual £3,963,600⁴² ongoing cost from year three onwards.

Required Activities - Risk Management

67. The proposals require schemes to have effective risk management processes in response to significant financially material climate risks. All but the disclosure should form part of the scheme's risk management currently, as part of fiduciary duty and this impact assessment assumes this to be the case.

Ongoing reporting cost to schemes in scope to document and disclose their Risk Management activities of climate-related risks.

68. The costs are once again comprised of an Administrator spending time completing the necessary '*Collating Information & Drafting Text*' and '*Proof-Reading & Checking*' activities, and then followed by the time for the Scheme's Trustees to complete any required '*Trustee Reading, Discussion & Sign-Off*' activities⁴³.

69. The total ongoing costs to pension schemes of this annual requirement is estimated to be approximately £17,800⁴⁴ in the first year of requirements and £63,600⁴⁵ per year from the second year onwards once the second tranche of schemes join the initial schemes in-scope.

Required Activities - Metrics & Targets

70. The proposal would require schemes to calculate an emissions-related metric [broadly, their carbon footprint] and use other metrics to track their management of climate change risks and opportunities. Separately, it is proposed that trustees must set a target for at least one

⁴⁰ Calculations: (103 Schemes in Scope) * (£12,000 Estimated Unit Cost) = £1,236,000 to the nearest £100.

⁴¹ Calculations: (103 Schemes in Scope) * (£10,800 Estimated Unit Cost) + (264 Schemes in Scope) * (£12,000 Estimated Unit Cost) = £4,280,400 to the nearest £100.

⁴² Calculations: (367 Schemes in Scope) * (£10,800 Estimated Unit Cost) = £3,963,600 to the nearest £100.

⁴³ Assumed, based on existing TCFD disclosures, to be approximately 2 page of pure text to the nearest page.

⁴⁴ Calculations: (103 Schemes in Scope) * [£14.92 Administrator Wage) * (3.4 Collating & Drafting Hours + 1.2 Checking Hours) + (£29.11 Trustee Wage) * (3 trustees per Scheme in Scope) * (1.2 Hours Reading & Sign-Off Time)] = £17,800 to the nearest £100.

⁴⁵ Calculations: (367 Schemes in Scope) * [£14.92 Administrator Wage) * (3.4 Collating & Drafting Hours + 1.2 Checking Hours) + (£29.11 Trustee Wage) * (3 trustees per Scheme in Scope) * (1.2 Hours Reading & Sign-Off Time)] = £63,600 to the nearest £100.

of their metrics and disclose it. It is also proposed that they must measure performance against the target(s) as far as they are able and disclose that information.

71. Trustees would be required to obtain data, importantly, as far as they are able, on emissions and another non-emissions-based climate change characteristic, calculate at least two metrics, and set a target for at least one of these metrics.
72. To support the effectiveness of the “as far as trustees are able” approach⁴⁶, the Government proposes that statutory guidance will expect trustees to explain why any metrics they have chosen to disclose do not fully cover the portfolio or extend to include all of a firm’s emissions.

Ongoing cost to schemes in scope to produce and disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

73. Engagement with industry stakeholders resulted in an estimated costs per scheme of £2,500 in the first year, and £2,250 per scheme per year in subsequent years⁴⁷. Proportionate sensitivity analysis of these unit costs have been considered in the ‘Key Assumptions & Sensitivity Analysis’ section, and like the central estimates have been informed by the feedback received from industry engagement. The key elements of these costs are expected to relate to the sourcing and acquisition of the required information from relevant parties, along with the relevant staff time of collating and analysing the relevant information.
74. Engagement with stakeholders has told us that trustees are sometimes able to obtain the data for free – this is typically due to pre-existing contractual arrangements with third parties who would produce these metrics for them. Where necessary, some small payment may be reasonable. However, the exact proportion of schemes which have such arrangements in place is unclear (it appears to be a minority) and would be difficult to robustly estimate. To appropriately account for the total costs to all businesses (whether costs are borne by a pension scheme or passed on to another firm in the supply chain) the Department has not included instances where obtaining relevant data does not cost a scheme due to existing arrangements when estimating an appropriate range of unit costs for Metrics & Targets. This approach is taken so as not to risk underestimating total costs to business.
75. In line with these unit costs, and the gradual rollout of schemes in scope, the total cost to all schemes in scope would be approximately £257,500 in year one, £891,800 in year two and then an annual £825,800 ongoing cost from year three onwards.

Ongoing reporting cost to schemes in scope to disclose their calculated metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

76. The costs are once again comprised of an Administrator spending time completing the necessary ‘*Collating Information & Drafting Text*’ and ‘*Proof-Reading & Checking*’ activities,

⁴⁶ As detailed and explained in the Consultation document, some requirements about metrics and targets subject to an “as far as trustees are able” approach. This acknowledges the potential hurdles to calculation and disclosure of metrics that represent fully the entire portfolio.

⁴⁷ See ‘Key Assumptions and Sensitivity Analysis’ for further details.

and then followed by the time for the Scheme's Trustees to complete any required 'Trustee Reading, Discussion & Sign-Off' activities⁴⁸.

77. The total ongoing costs to pension schemes of this proposed annual requirement is estimated to be approximately £17,800⁴⁹ in the first year of requirements (*when only the first tranche of the largest pension schemes are in scope*). The total annual ongoing costs to pension schemes are then estimated to be £63,600⁵⁰ per year from the second year onwards (*once the second tranche of schemes join the initial schemes in scope*).

Required Activities - Publishing and Signposting

Ongoing cost to schemes in scope to upload the report & reference it in their Annual Report

78. This relates to costs associated with an in-scope scheme's staff member's time to upload the completed TCFD report to the scheme's website or the website of the sponsoring employer, as well as the time of an administrator to add a reference or link to the TCFD report in the scheme's Annual Report⁵¹.

79. The total ongoing costs to pension schemes of this annual requirement is estimated to be approximately £800⁵² in the first year of requirements (*when only the first tranche of the largest pension schemes are in scope*). The total annual ongoing costs to pension schemes are then estimated to be £2,700⁵³ per year from the second year onwards (*once the second tranche of schemes join the initial schemes in scope*).

Indirect Costs to Pension Schemes

80. Increased transparency-enabled scrutiny as well as comparability between pension schemes in scope may result from standardised, widespread TCFD-reporting. Therefore, in practice some pension schemes may choose to go above-and-beyond their pre-existing fiduciary requirements. This would be a choice made by trustees of individual schemes, not a regulatory requirement and is thus not costed in this impact assessment. Similarly, on the Metrics & Targets activities, some schemes may want to be ambitious and disclose metrics that are not constrained by the proposed "as far as they are able" approach but that fully cover the portfolio, possibly relying on estimation where data gaps exist. This kind of innovation is welcomed, but would not form a requirement on schemes.

⁴⁸ Assumed, based on existing TCFD disclosures, to be approximately 2 page of pure text to the nearest page.

⁴⁹ Calculations: (103 Schemes in Scope) * [£14.92 Administrator Wage) *(3.4 Collating & Drafting Hours + 1.2 Checking Hours) + (£29.11 Trustee Wage) *(3 trustees per Scheme in Scope) *(1.2 Hours Reading & Sign-Off Time)] = £17,800 to the nearest £100.

⁵⁰ Calculations: (367 Schemes in Scope) * [£14.92 Administrator Wage) *(3.4 Collating & Drafting Hours + 1.2 Checking Hours) + (£29.11 Trustee Wage) *(3 trustees per Scheme in Scope) *(1.2 Hours Reading & Sign-Off Time)] = £63,600 to the nearest £100.

⁵¹ Allowing 30 minutes in total (10 minutes to upload a completed document and 20 minutes to add a reference to the existing Annual Report).

⁵² Calculations: (103 Schemes in Scope) * [£14.92 Administrator Wage) *(0.17 Uploading Hours + 0.33 Drafting Hours) = £800 to the nearest £100.

⁵³ Calculations: (367 Schemes in Scope) * [£14.92 Administrator Wage) *(0.17 Uploading Hours + 0.33 Drafting Hours) = £2,700 to the nearest £100.

Costs and Benefits to Other Affected Parties

81. The potential benefits of the proposed requirements are discussed qualitatively. At this stage it would be disproportionate to estimate these potential benefits quantitatively so they have not been estimated, nor included in the *Total Net Present Social Value* calculation.

Benefits to Scheme Members

Increased Climate Change-Related Information Informing the Trustees Managing Their Respective Pensions

82. Requiring the schemes in scope to undertake additional TCFD-recommended activities (notably around scenario analysis and the generation of metrics and targets) would generate crucial information and data that can feed back into the trustees' existing management of the financially-material risks of climate change. The increased availability and quality of climate-related information is likely to lead to better, evidence-based climate-related decision-making by trustees. This ultimately reduces the exposure/likelihood of scheme members experiencing climate change-related losses of pension value (stranded assets etc.) and this subsequently improves their expected outcomes in retirement.

83. Schemes with better information, insights and data (generated by scenario analysis and metrics & targets activities) feeding into their governance and management practices around climate change may also be better positioned to take advantage of emerging investment opportunities linked to the transition to a lower carbon economy. For example, a scheme that now understands that they are extremely exposed to assets which are likely to become stranded in the future due to reduced economic dependency on fossil fuels, may seek to invest instead in companies that depend more on the emergence of alternative energies such as electric vehicle manufacturers. Without an effective strategy on climate change and decision-useful scenario analysis, this kind of decision would be made without the necessary scheme-relevant information. Therefore, these proposals could reduce the risk of members being in schemes that miss out on any such opportunities for a sustainable income stream in future, and subsequently reduce the risk of any such opportunity cost from foregone returns.

Pension Schemes Potentially Choosing to Improve Climate-Related Practices: Transparency-Enabled Scrutiny & Industry Peer Learning

84. Over time schemes may choose voluntarily to improve their own climate change-related governance practices. This could be due to reasons of '*transparency-enabled scrutiny*' as well as '*industry peer learning*' due to the proposed staggered introduction of the requirements.

85. The transparency-enabled scrutiny ensured by the disclosure requirements of the proposed regulations would enable the climate change-related governance, strategy and risk management practices of in scope pension schemes to be compared and contrasted with one another. This comparability may result in schemes in the longer term seeking to learn from – or indeed compete with – one another and become industry leaders in their practices relating to accounting for and managing the risks of climate change. Schemes making such choices would ultimately benefit their members whose expected retirement outcomes could

improve as a result of being members of a scheme with more robust measures in place to protect their pension pots from the risks of climate change.

86. The proposed staggered approach of introducing the TCFD requirements could also lead to the emergence of industry-wide governance standards regarding climate change being improved voluntarily, which would be to the ultimate benefit of smaller schemes and their members who come within the scope of these requirements later. The reason for this is because the staggered approach would see the pensions schemes most likely to go above the minimum requirements disclosing their TCFD reports first. These schemes may 'set the bar', meaning that subsequent schemes preparing to come into scope later may learn from and try to follow 'above-and-beyond' exemplary measures taken by Phase 1 schemes around climate change governance. If industry peer-learning and example-setting of the first tranche of schemes ends up influencing smaller schemes to adopt more rigorous climate change-related governance practices, this can ultimately benefit the members of these schemes through improved expected retirement outcomes due to potentially reduced exposure to financially-material climate risk.

Improved Transparency & Potential Engagement with their Pensions

87. Another benefit for members of schemes in scope stems from the disclosure and transparency element of the proposed requirements. Research suggests that people care about the impact that their money has on society and the environment⁵⁴, and the Pension Policy Institute's report in 2018⁵⁵ found evidence that member engagement in ESG factors is increasing significantly. Therefore, pension scheme members may benefit from the additional transparency due to increased awareness of (and ability to scrutinise) how their scheme is investing and managing risks with respects to an issue - in climate change – that many of them care about.

Costs to Regulator

88. The Pensions Regulator (TPR) would be responsible for monitoring and enforcing compliance with the proposed requirements. We have engaged with TPR and plan to work with them to robustly estimate the cost and impact on them ahead of introduction of any secondary legislation.

89. It is proposed that schemes in scope of these TCFD requirements would be required to report to TPR the web address of where they have published their TCFD report via the annual scheme return form, along with locations of the published Statement of Investment Principles, the Implementation Statement and published excerpts of the Chair's Statement

90. We also propose that complete failure to publish any TCFD report is appropriate for a mandatory penalty. Other penalties would be subject to TPR discretion.

⁵⁴ Navigating ESG: a practical guide - <https://www.dcif.co.uk/wp-content/uploads/2018/04/navigating-esg-final-lo-res.pdf>

⁵⁵ [PPI - 'ESG: past, present and future'](#)

Wider Economic and Societal Impacts

91. The key potential societal benefits stem from the fact that UK occupational pension schemes are investors of significance to the UK economy, although it should be noted that the Government has made it clear during debates in the House of the Lords that the climate change provisions within the Pension Schemes Bill cannot be used to direct pension scheme investment – investment decisions are solely the responsibility of trustees.
92. However recent research by the International Monetary Fund has specifically identified that global equity prices do not reflect future climate risk⁵⁶, and it is likely that the risks and opportunities associated with climate change are unlikely to have been fully priced-in by the market^{57,58}. It is possible that as a result of these proposed requirements, the increased salience of climate change as a risk to current valuations and the outcomes from climate-related scenario analysis (feeding into the decision making process of trustees) may result in some trustees wishing to divest on financial materiality grounds from higher carbon firms or sectors where they believe that stewardship has been or will be unsuccessful. They may also divest on non-financial grounds within the narrow range of circumstances identified by the Law Commission in their two-stage test⁵⁹.
93. The proposed disclosure requirements for TCFD also increase transparency and comparability between pension schemes and their climate-related practices, and some schemes in this new environment of transparent reporting on climate change risk may seek to establish themselves as an industry leader in considering climate change in its investment decisions and wider practices.
94. The proposed requirements can lead to increased transparency-enabled scrutiny and better embedded considerations around the financially material risks of climate change in trustee decision making and investment strategies. As a result, it may be that after more robustly accounting for these physical and transition risks of climate change, trustees are in a better position to invest and benefit from the potential emergence of low carbon opportunities. This potential switching away from higher carbon firms and sectors and towards greener alternatives may have wider societal impacts over time by averting potential negative spill over effects/externalities of such higher-carbon firms' and sectors' contribution to atmospheric greenhouse-gas levels and any associated climate change related costs to wider society.
95. One final wider economic and societal impact of these requirements is that if pension funds are viewed by their members to be more actively sustainable institutions on climate change, an issue on which there is evidence of member interest, then this may lead to increased engagement by members. Increased member engagement could mean a reduced likelihood of opting out over time, or more active consideration around optimal rates of contribution.

⁵⁶ International Monetary Fund. Global Financial Stability Report on Climate Change: Physical Risk and Equity Prices - <https://www.imf.org/en/Publications/GFSR/Issues/2020/04/14/global-financial-stability-report-april-2020#Chapter5>

⁵⁷ <https://climateactiontracker.org/global/temperatures/>

⁵⁸ All Swans are Black in the Dark: how the short-term term focus of financial analysis does not shed light on long term risks - <https://www.genfound.org/media/1383/all-swans-are-black-in-the-dark.pdf>

⁵⁹ "Is it always about the money? Pension trustees' duties when setting an investment strategy: Guidance from the Law Commission. [Link](#).

Over time, this increased engagement by some members with their pensions and savings may result in more effective consumption smoothing and associated welfare effects⁶⁰. Any increased consumption in retirement could also result in knock-on impacts to healthcare if this cohort of retirees are in better health due to higher, better smoothed consumption/a higher material standard of living.

Key Assumptions and Sensitivity Analysis

General Assumptions

- The number of schemes in scope, is assumed to remain broadly similar over the appraisal period.
 - Master Trusts are already in scope of the proposed requirements, so any Master Trusts forecast to pass the £1billion AUM threshold over the appraisal period are already accounted for and thus would not impact the number of schemes in scope.
 - The sensitivity of the schemes in scope, and this assumption more generally, has also been checked against TPR estimates assessing the number of schemes marginally either side of the £1bn AUM threshold at present.
- It is assumed that trustees of the schemes in scope conduct quantitative scenario analysis.
 - The Government's proposals mirror the recommendations of the TCFD in allowing instances where schemes conduct qualitative scenario analysis if they are unable to source sufficient expertise, data etc. to quantitatively model the impact of future warming scenarios on their portfolio and/or investment strategy. However, this is not assumed to be of relevance given the nature of schemes in scope of these proposals at this time (large occupational pension schemes and authorised Master Trusts). It may be more likely to be a consideration in 2024 when it is proposed to consider the potential extension to smaller pension schemes.
- We assume there will be a 10% decrease in the cost of conducting Scenario Analysis, and also of producing Metrics & Targets, after each scheme's first year of completing these activities. This is based on engagement with industry and accounts for the required infrastructure and arrangements being in place from the previous (first) year of completion, as well as a result of other experience-related efficiencies. However, we assume, in line with engagement with industry, that the unit cost of an appropriate scenario analysis & metrics and targets from the second year onwards remains the same (i.e. no assumed further, year-on-year efficiencies).
- We have assumed an average cost of an hour of time for a Trustee is £29.11 per hour, this is based on 2019 Annual Survey of hours and Earnings (ASHE) data for Corporate Managers & Directors⁶¹.
 - The median hourly gross pay for corporate managers and directors is £22.92 in Table 2.5. This is uplifted by 27% for overheads from the previous version of the Green Book, no updated estimate is available.

⁶⁰ Impact Assessment of the Pensions Bill (2008). [Link](#).

⁶¹ 2019 Annual Survey of hours and Earnings (ASHE). [Link](#).

- Similarly, we have assumed an average cost of an hour of time for an Administrator is £14.92, this is based on 2019 Annual Survey of hours and Earnings (ASHE) data for Administrative Occupations.
 - The median hourly gross pay for administrative occupations is £11.75 in Table 2.5. This is uplifted by 27% for overheads from the previous version of the Green Book, no updated estimate is available.
- We also assume approximately 3 trustees per relevant scheme, based on calculations using TPR data on '*Number of Trustees – by scheme size*'⁶².
- For familiarisation costs we assume a reading time of 6 minutes per page for Trustees.
- For Reporting Costs, the 'drafting/typing' time elements are calculated using an assumed typing speed of 52 Words per Minute⁶³.

Sensitivity Analysis

One-off familiarisation cost to schemes in scope for trustees to read guidance and understand the requirements based on the TCFD recommendations.

96. When allowing for sensitivity around the required time assumptions of 50 per cent the one-off cost decreases to £13,500 in Year One and £34,600 in Year Two, or increases to £40,500 in Year One and £103,700 in Year Two.

97. When assuming, for sensitivity, only 1 trustee per scheme familiarising with the requirements, this decreases the one-off cost to £9,000 in Year One and £23,100 in Year Two.

Ongoing cost to schemes in scope to document & disclose their governance of climate-related risks and opportunities.

98. When allowing for sensitivity around the required time assumptions of 50 per cent the one-off cost decreases to £8,200 in year one and £29,400 for year two onwards. Whereas a 50% increase in time required would see the total costs to schemes increase to £24,700 in year one and £88,100 for year two onwards.

Ongoing reporting cost to schemes in scope to document & disclose strategy activities in relation to climate-related risks and opportunities.

99. When allowing for sensitivity around the required time assumptions of 50 per cent the one-off cost decreases to £9,600 in year one and £34,200 for year two onwards. Whereas a 50% increase in time required would see the total costs to schemes increase to £28,800 in year one and £102,600 for year two onwards.

Ongoing cost to schemes in scope to produce and disclose Scenario Analysis in line with the TCFD requirements

⁶² The Pensions Regulator - Trustee Landscape Quantitative Research, Figure 3.2.2. [Link](#).

⁶³ Dhakal, V., Feit, A., Kristensson, P.O. and Oulasvirta, A. 2018. 'Observations on typing from 136 million keystrokes.' (CHI 2018). ACM Press. [Link](#).

100. Based on discussions and feedback from the pensions industry, including those already completing TCFD-compliant reports voluntarily, we have produced both a central estimate and accompanying upper & lower estimates for the task of conducting a TCFD-compliant Scenario Analysis exercise.
101. We allow for sensitivity around the scenario analysis unit cost estimate. These estimates are based on pensions industry feedback on costs related to existing TCFD reports or planned TCFD reports. The upper limit cost per scheme of completing appropriate scenario analysis is estimated at £17,500 in the first year and £15,750 from the second year onwards. In this instance, the subsequent total cost to all schemes in scope is approximately £1,802,500 in Year One, £6,242,300 in Year Two and then an annual £5,780,300 ongoing cost from Year Three onwards.
102. The lower limit cost per scheme of completing appropriate scenario analysis is estimated at £8,000 in the first year and £7,200 from the second year onwards. In this instance, the subsequent total cost to all schemes in scope is approximately £824,000 in Year One, £2,853,600 in Year Two and then an annual £2,642,400 ongoing cost from Year Three onwards.

Ongoing reporting cost to schemes in scope to document and disclose their Risk Management activities of climate-related risks.

103. When allowing for sensitivity around the required time assumptions of 50 per cent the one-off cost decreases to £8,900 in Year One and £31,800 for year two onwards. Whereas a 50% increase in time required would see the total costs to schemes increase to £26,800 in year one and £95,300 for Year Two onwards.

Metrics & Targets

Ongoing cost to schemes in scope to produce and disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

104. Based on discussions and feedback from the pensions industry, including those already completing TCFD-compliant reports voluntarily, we have produced both a central estimate and accompanying upper & lower estimates for the task of calculating or obtaining appropriate TCFD-relevant Metrics & Targets for their respective portfolios.
105. As with the scenario analysis cost estimates, we assume there will be a 10% decrease in the cost per scheme after the first year, to account for the required infrastructure being in place from the year before, as well as other experience-related efficiencies. However, we again assume no further efficiency gains from the second year onwards.
106. After having engaged with the pensions industry, we estimate a cost of approximately £2,500 for a Pension Scheme to complete a TCFD-appropriate scenario analysis in the first year, and £2,250 from their second year onwards. This total cost to all schemes in scope is approximately £257,500 in Year One, £891,800 in Year Two and then an annual £825,800 ongoing cost from Year Three onwards.

107. We allow for sensitivity around the scenario analysis unit cost estimate. These estimates are based on pensions industry feedback on costs related to existing TCFD reports or planned TCFD reports. The upper limit cost per scheme of completing appropriate scenario analysis is estimated at £5,000 in the first year and £4,500 from the second year onwards. In this instance, the subsequent total cost to all schemes in scope is approximately £515,000 in Year One, £1,783,500 in Year Two and then an annual £1,651,500 ongoing cost from Year Three onwards.

108. The lower limit cost per scheme of completing appropriate scenario analysis is estimated at £1,500 in the first year and £1,350 from the second year onwards. In this instance, the subsequent total cost to all schemes in scope is approximately £154,500 in Year One, £535,100 in Year Two and then an annual £495,500 ongoing cost from Year Three onwards.

Ongoing reporting cost to schemes in scope to disclose their calculated metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

109. When allowing for sensitivity around the required time assumptions of 50 per cent the one-off cost decreases to £8,900 in year one and £31,800 for year two onwards. Whereas a 50% increase in time required would see the total costs to schemes increase to £26,800 in year one and £95,300 for year two onwards.

Ongoing cost to schemes in scope to upload the report & reference it in their Annual Report

110. The final task of '*Uploading Completed Report to Scheme/Sponsor Website*' is estimated to take approximately 10 minutes (0.17 hours). We have also allowed for 20 minutes (0.3 hours) for the task of adding a referring line/link to the scheme's existing Annual Report. This work is to be carried out by an Administrator. The time of an administrator, based on calculations using ONS Earnings & Hours Worked 2019 data, is estimated to cost Schemes approximately £14.92 per hour (once accounting for overheads).

111. When allowing for sensitivity around the required time assumptions of 50, the ongoing total cost decreases to £400 in year one and £1,400 for year two onwards. Whereas a 50% increase in time required would see the total costs to all schemes in scope increase to £1,200 in year one and £4,100 for year two onwards.

Accounting for pension schemes in scope already completing elements of the proposed requirements on a voluntary basis

112. Through engagement with industry, there is evidence to suggest that there are pension schemes that are already completing aspects of the proposed new requirements and producing TCFD reports already on a voluntary basis.

113. This is supported by evidence from October 2019 sent by the Minister for Pensions and Financial Inclusion to the 40 largest defined benefit schemes (each with more than £5bn in

assets) and the 10 largest defined contribution schemes (each with £1bn or more in assets). Responses showed that 42% of respondents had already reported in line with TCFD or planned to in the next year

114. Similarly, evidence from reporting by UK asset owners to the Principles for Responsible Investment⁶⁴ earlier this year showed that more than 50 of its signatories – many of them large pension schemes – were reporting on TCFD-based indicators.
115. It would not be proportionate to look into the individual voluntarily-published TCFD reports from pension schemes envisaged to be in scope to assess their described activities against each of the Government's proposed requirements just in order to reduce different cost elements in any EANDCB calculations. Especially as it is not thought that the majority of voluntary TCFD disclosures will include a scenario analysis conducted in line with these proposed requirements (a key driver of total costs), and that any costs 'already being done by schemes voluntarily' that could be 'chalked off' would be related to the smaller Reporting and Disclosure cost elements of the other proposed requirements.
116. Furthermore, the evidence around existing activities being undertaken on a 'voluntary' basis may also be the result of anticipation effects, given both Government announcements such as in the expectation in the Green Finance Strategy⁶⁵ as well as more general engagement between government and the pensions industry. Elements of the proposed requirements being completed prior to regulation due to anticipation effects would not be appropriate to subsequently 'chalk off' when estimating the costs to business.
117. However, for sensitivity purposes we do investigate the EANDCB's downwards sensitivity when factoring in that some of schemes in scope are completing different elements of the TCFD report and activities. Estimates of the specific nature of these activities, such as whether a TCFD report includes a scenario analysis (and if it specifically includes a scenario with an increase of under 2°C) are based on PRI estimates⁶⁶ about their signatories (including pension schemes as well as other organisations).
118. It is assumed that PRI-signatory pension schemes in scope are undertaking similar TCFD and climate-related activities as other PRI-signatory organisations (e.g. PRI-signatory investment managers). 21 UK pension schemes (19 of which would be expected in the first tranche of schemes coming into scope) are identified as PRI-signatories and therefore expected to already be undertaking elements of the costs associated with the new proposed government requirements. Once factoring these activities into the costs to business estimates (and ignoring potential anticipation effects), this would see the Net Direct Cost to Business Per Year decrease to £4.6m per annum.
119. As well as PRI-signatory schemes, and based on aforementioned industry engagement, for the purposes of sensitivity analysis, it can be assumed that potentially as many as 35 of the largest UK pension schemes (within the estimated first tranche of 103 schemes) may be producing TCFD reports and undertaking elements of these newly proposed requirements already. Of the estimated 264 'second tranche' of schemes to come into scope, it might also be assumed for the purposes of this sensitivity analysis that an additional 20 of these schemes may also be similarly undertaking these activities on a voluntary basis. If the activities of these schemes (e.g. the proportions undertaking scenario analysis within their TCFD activities) are assumed to be similar to those of the subset of PRI-signatory schemes, then once factoring in these activities into the costs to business estimates (and ignoring potential anticipation effects) the Net Direct Cost to Business Per Year decreases to £4.5m per annum.
120. The consideration of these sensitivities around voluntary activities being completed already is because it is particularly important to consider costs to business in the current

⁶⁴ UNPRI. [Link](#).

⁶⁵ The Green Finance Strategy was published in July 2019, in which the Government expectation for all listed companies and large asset owners to disclose in line with the TCFD recommendations by 2022. Including the consideration around whether to mandate. [Link](#).

⁶⁶ "PRI climate snapshot 2020", July 2020. [Link](#).

economic conditions. Therefore some of these requirements may not represent a 'new' cost to some schemes already completing such activities by choice.

121. We would welcome further information from pension schemes in scope of the proposed requirements to feedback which elements of the specific activities costed in this impact assessment that they are already completing voluntarily (e.g. completing a TCFD report/ conducting a scenario analysis/calculating relevant metrics). The feedback of any further information should be provided via the consultation process.

Small and Micro Business Assessment

122. As detailed in "Scope of Proposed Measures", the introduction of TCFD requirements are proposed to take place in a phased two-stage approach beginning with the occupational pension schemes that can be expected to have the resources in place to allow them to implement and report in line with the TCFD requirements most readily.

123. The proposed approach to include all Master Trusts at the earlier stage (including those with below £1bn total asset value), without a gradual approach by value of assets under management, is driven by a desire to ensure a level playing field amongst master trusts. The authorisation procedure requires Master Trusts to have a given level of governance capability – by having met such tests, all Master Trusts should be able to embed the TCFD framework and make the necessary disclosures more easily than some other schemes. There is a strong argument for ensuring a level playing field across all master trusts and ensuring that schemes implementing enhanced climate governance and reporting on TCFD are not undercut by, say, smaller exempt schemes taking an approach which does not take full account of climate considerations and exposes members to unnecessary risk.

124. The Government acknowledges that pension savers have little or no choice over the scheme they are in, and the preferred scope and timing approach will mean that the requirement for effective protection against climate change risks will not apply equally to all pension assets. Therefore, the Government proposes to review the inclusion of smaller schemes in 2024.

125. The Government proposes that it will take stock in 2024 and consult more widely again before extending to schemes with < £1bn in assets, taking account both of the quality of climate risk governance and associated disclosures carried out to date, and the current and future costs of compliance.

Monitoring and Evaluation

126. The Pensions Regulator (TPR) would be responsible for monitoring and enforcing compliance with these proposed requirements. The schemes in scope would be required to report to The Pensions Regulator (TPR).

127. With regards to evaluating the impacts of the proposed measures, the Government proposes a review in 2024. This would provide an opportunity to examine the emerging effects of the measures and any unintended consequences. It is proposed that this would include an assessment of whether the key "as far as trustees are able" requirements can be replaced with stronger requirements on data collection, in light of any development of capabilities by others in the sector and the economy more widely.

128. Should the proposed measures be adopted, the Government also proposes to consult more widely again in 2024 before extending them to schemes with < £1bn in assets, taking account both of the quality of climate risk governance and associated disclosures carried out to date, and the current and future costs of compliance.

Summary of Total Costs

Table 1.1: One-off costs for tranche one schemes in scope to understand and familiarise themselves with the guidance, and ongoing costs to complete TCFD-aligned disclosure and reporting requirements, scenario analysis and activities around the production of metrics and targets.

All figures in 2019/20 prices, rounded to the nearest £1000.

<u>Type Of Cost</u>	<u>Scheme Volumes</u>	<u>Cost – Year One</u>	<u>Cost – Year Two</u>	<u>Cost – Year Three & Onwards</u>	<u>Frequency</u>	<u>Assumptions and Rationale</u>
One-Off Costs - Familiarisation	103 in Year One 264 in Year Two	£27,000	£69,000	£0	Once per scheme (year one or two depending on rollout)	Assumed all trustees of a scheme in scope are required to familiarise and understand the requirements.
Ongoing - Reporting & Disclosure Costs ³⁹¹	103 in Year One 367 in Year Two and Onwards	£71,000 ³⁹²	£254,000 ³⁹³		Yearly Once in Scope	As detailed in “Key Assumptions and Sensitivity Analysis” section. Assumptions on time required for Collating, Drafting & Checking by an Administrator. As well as discussion and reading time by Trustees.
Ongoing – Completion and Disclosure of Scenario Analysis	103 in Year One 367 in Year Two and Onwards	£1,236,000	£4,280,000	£3,964,000	Yearly Once in Scope	As detailed in “Key Assumptions and Sensitivity Analysis” section. An assumed one-off 10% decrease in cost for a scheme completing a Scenario Analysis for the second time and onwards.
Ongoing – Production of Metrics & Targets	103 in Year One 367 in Year Two and Onwards	£258,000	£892,000	£826,000	Yearly Once in Scope	As detailed in “Key Assumptions and Sensitivity Analysis” section. An assumed one-off 10% decrease in cost for a scheme producing relevant Metrics and Targets for the second time and onwards.
Ongoing – Uploading & Signposting Completed Report	103 in Year One 367 in Year Two and Onwards	£1,000	£3,000		Yearly Once in Scope	Assumed time required for an administrator to upload a document. Assumed schemes in scope (or sponsoring employers) will already have a website.
Total Cost	£1,593,000 in Year One; £5,499,000 in Year Two and £5,047,000 in Year Three & Onwards.					

³⁹¹ (Reporting & Disclosure Costs) = (Governance Reporting & Disclosure Costs) + (Strategy Reporting & Disclosure Costs) + (Risk Management Reporting & Disclosure Costs) + (Metrics & Targets Reporting & Disclosure Costs)

³⁹² (£71,000) = (£17,000 for Governance) + (£19,000 for Strategy) + (£18,000 for Risk Management) + (£18,000 for Metrics & Targets). Figures may not sum to total due to rounding.

³⁹³ (£254,000) = (£59,000 for Governance) + (£69,000 for Strategy) + (£64,000 for Risk Management) + (£64,000 for Metrics & Targets). Figures may not sum to total due to rounding.

Summary of Total Costs – Sensitivity Analysis (Upper and Lower Estimates)

Table 1.2: Summary of the upper and lower cost estimates of each cost element, detailed in Table 1.1, as detailed in the ‘Sensitivity Analysis’ section.

All figures in 2019/20 prices, rounded to the nearest £1000.

<u>Type Of Cost</u>	<u>Scheme Volumes</u>	<u>Cost – Year One</u>	<u>Cost – Year Two</u>	<u>Cost – Year Three & Onwards</u>	<u>Frequency</u>	<u>Assumptions and Rationale</u>
One-Off Costs - Familiarisation	103 in Year One 264 in Year Two	Lower: £14,000 Upper: £41,000	Lower: £35,000 Upper: £104,000	Lower: £0 Upper: £0	Once per scheme (year one or two depending on rollout)	Allowing for sensitivity around the required time assumptions of 50 per cent.
Ongoing - Reporting & Disclosure Costs ³⁹⁴	103 in Year One 367 in Year Two and Onwards	Lower: £36,000 Upper: £107,000	Lower: £127,000 Upper: £381,000		Yearly Once in Scope	Allowing for sensitivity around the required time assumptions of 50 per cent.
Ongoing – Completion and Disclosure of Scenario Analysis	103 in Year One 367 in Year Two and Onwards	Lower: £824,000 Upper: £1,802,000	Lower: £2,854,000 Upper: £6,242,000	Lower: £2,642,000 Upper: £5,780,000	Yearly Once in Scope	Accompanying lower & upper unit cost estimates based on stakeholder engagement and the information they returned.
Ongoing – Production of Metrics & Targets	103 in Year One 367 in Year Two and Onwards	Lower: £155,000 Upper: £515,000	Lower: £535,000 Upper: £1,784,000	Lower: £495,000 Upper: £1,652,000	Yearly Once in Scope	Accompanying lower & upper unit cost estimates based on stakeholder engagement and the information they returned.
Ongoing – Uploading & Signposting Completed Report	103 in Year One 367 in Year Two and Onwards	Lower: £0 Upper: £1,000	Lower: £1,000 Upper: £4,000		Yearly Once in Scope	Allowing for sensitivity around the required time assumptions of 50 per cent.
Total Cost - Sensitivity Analysis	Lower: £1,028,000 in Year One; £3,552,000 in Year Two and £3,266,000 in Year Three & Onwards. Upper: £2,466,000 in Year One; £8,515,000 in Year Two and £7,817,000 in Year Three & Onwards.					

³⁹⁴ (Reporting & Disclosure Costs) = (Governance Reporting & Disclosure Costs) + (Strategy Reporting & Disclosure Costs) + (Risk Management Reporting & Disclosure Costs) + (Metrics & Targets Reporting & Disclosure Costs)