Department for Work & Pensions	Impact Assessment (Final)	
Title of measure		Improving outcomes for members of Defined Contribution pension schemes
Lead Department/Agency		DWP
Planned coming into force /implementation date		01 October 2021/scheme year end after 31 December 2021
Origin (Domestic/EU/Regulator)		Domestic
Policy lead		Andrew Blair
Lead analyst		Tom Drissi
Departmental Assessment		Self-certified
Total Net Present Social Value (over 10-year period): -£15.1m	**Equivalent Annual Net Direct Cost to Business (EANDCB) (over 10-year period): £1.8m**	**Business Impact Status:** Non-Qualifying Regulatory Provision

Summary - Intervention and impacts

Policy Background – Issue – Rationale for Intervention – Intended Effects

The Pensions Regulator (TPR) research of Defined Contribution (DC) schemes has clearly shown that most small pension schemes are poorly governed in comparison to larger pension schemes[1]. There is a risk that member outcomes are weaker within poorly governed, typically smaller, schemes.

To begin to address this, in February 2019, The Department for Work and Pensions put forward proposals in its consultation *"Investment Innovation and Future Consolidation"* encouraging providers of smaller pension schemes to consider consolidation of these schemes into bigger pension schemes. However, the DC industry still consists of a majority of smaller schemes[2], indicating that there may be room for improvement in governance and ultimately member outcomes[3] through faster consolidation of these small, poorly governed, schemes.

In addition, Pensions Policy Institute research in 2017 also noted that *"UK DC pension schemes have fallen behind many of their international counterparts in their use of a wider range of asset classes"*[4]. There is a risk that this lack of diversification in investment also leads to poorer outcomes for members. Following the Patient Capital Review, in October 2018 TPR published guidance on how trustees can invest in assets with long-term investment horizons[5] as part of a diverse portfolio[6]. However, evidence of schemes doing this remains limited. We would expect that the ability of schemes to diversify (including into more illiquid assets[7]) increases along with scale[8], therefore this furthers the rationale for encouraging consolidation.

[1] "Defined Contribution trust-based pension schemes research - Report of findings on the 2019 survey". LINK.
[2] TPR, DC trust: scheme return data 2019 – 2020, Table 1.1 & 1.2. LINK.
[3] TPR, "Importance of good governance". LINK.
[4] "The impact of DC asset pooling: International evidence". LINK.
[5] Such as venture capital, infrastructure, market-returning investments that may have a social side benefit and other illiquid assets.
[6] 'Investment Innovation and Future Consolidation' (Feb 2019). LINK. Pages 9.
[7] By illiquid investments, in broad terms we mean assets which are traded off-exchange or are otherwise less readily tradeable. Examples include direct property investment, investment in infrastructure projects, private equity, equity or debt issued by very small listed firms, and venture capital. This definition also includes off-exchange or less readily traded impact investments which deliver comparable returns.
[8] 'Investment Innovation and Future Consolidation' (Feb 2019). Link. Pages 18-19.

Overall, consolidation of pension schemes should result in more members being in schemes with better governance standards; and it could also bring benefits from improved access to a greater range of investment opportunities, and consequently improved returns for members. As a result, there would be much greater potential for saver outcomes to be improved.

Brief description of viable policy options considered (including alternatives to regulation)

1. **Do nothing**

   Consolidation has, to some degree, already been happening over time, and could possibly continue without further intervention. However, the rate at which this has occurred has been quite low. Between 2010 and 2019 the number of DC schemes[9] decreased by an average of 1.5% per year, with Automatic Enrolment and its creation of a mass DC market, master trust authorisation, and other factors that increase governance requirements on schemes contributing towards this reduction.

   Approximately 70% of all DC schemes[10] are small or micro schemes (<100 members). Research carried out by the Pensions Regulator (TPR) in 2019[11] showed around 70% of micro (2-11 members) and 60 % of small (12-99 members) schemes were not hitting any of the five key governance requirements that applied to them. This indicates that these pension schemes are not well run, increasing the risk that pension savers are (potentially unknowingly) ending up with worse outcomes in retirement than would have been the case if they were in a better governed scheme.

   Therefore, without further measures that seek to target these poorly governed schemes, there is a risk that the pace of consolidation remains slow and more members spend more time in poorer value for money schemes, leading to potentially worse outcomes in retirement.

2. **Alternatives to regulation**

   There are two possible alternatives. Non-statutory guidance could be produced or TPR's guidance on assessing value for scheme members could be updated. TPR could introduce guidance in relation to consolidation. However, experience has shown that unless requirements are in legislation, with consequential actions for non-compliance, a certain degree of non-compliance exists in adhering non-regulatory measures. This is evidenced by the low adherence by small pension schemes to TPR's existing key governance requirements. This therefore indicates that further action is required.

3. **Introduce changes to the Scheme Administration, Disclosure and Register of Information Regulations**

   <u>Preferred option</u>

   Amending existing regulations would target smaller pension schemes and mandate 'specified schemes'[12] to do a more in depth value for members (VFM) assessment compared to the current assessment required in the Chair's statement. Regulations would mandate reporting the outcome of this assessment in the Chair's statement and in the annual scheme return to TPR, along with proposed action to be taken going forward in the event of poor VFM.

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[9] DC schemes with 2 or more members, excluding hybrid schemes with DC members. Table 1.1, Link.
[10] DC Schemes (including hybrid schemes but excluding SAS, EPPs)
[11] https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dc-research-summary-report-2019.ashx

[12] We define 'specified schemes' as DC schemes with total assets of < £100m and running for at least 3 years (including DB hybrids but excluding EPPs and SSAS).

The government expects, that where a specified scheme, after VFM assessment, does not present good overall Value for Members, trustees would adopt the default position of taking immediate action to start winding up the scheme and consolidating members into a scheme that will accept them and provide better value.

If trustees choose not to start taking this action immediately, and they believe that they have solid grounds for not doing so, then regulations, if passed, will require trustees to explain these reasons fully to the regulator along with full details of what improvements will be made within a reasonable period, to ensure that the scheme delivers good value.

TPR already has existing broad powers under the Pensions Act 1995[13] to force a scheme to wind up in the interests of the generality of its members. These powers will be used more extensively in tandem with the new regulations where necessary.

As these new measures would be legal requirements they would require trustees of schemes to consider VFM and encourage them to consider the merits of consolidation more robustly than before. This would provide greater transparency for scheme members and, as the measures would be in regulations, TPR would continue to be able to use powers to enforce them in the event of non-compliance.

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

Impact on Business

As a result of the regulations, the relevant schemes in scope (less than £100m assets under management (AUM) and running for at least 3 years, excluding *Executive Pension Plans* (EPPs) and *Small Self-Administered Schemes* (SSASs), henceforth *'specified schemes'*, will be impacted in the following ways:

- One-off familiarisation cost to the defined 'specified schemes' to read guidance and understand the requirements of the absolute and relative assessments and consolidation;
- Ongoing cost to the defined 'specified schemes' to complete the additional information in the scheme return regarding VFM;
- Ongoing cost to the defined 'specified schemes' to include a more prescriptive VFM assessment in the Chair's statement;
- Ongoing cost to the defined 'specified schemes' in scope to compile the information, carry out the relative assessment and indicate the results; and
- Ongoing cost to the defined 'specified schemes' to actively engage larger pension schemes and determine if they would agree to take them on.

The regulations will also place requirements on all occupational DC pension schemes (excluding EPPs and SSASs) to undertake the following:

- One-off cost to all schemes to report on investment returns every year since 2015;
- Ongoing cost to all schemes to report investment returns each future year;
- Ongoing cost to all schemes who do not currently voluntarily complete the question on Assets Under Management (AUM), to fill out in scheme return.

Impact on Regulatory Bodies

<u>TPR</u>

As a result of the regulations, TPR will be required to:

- amend the scheme return;

[13] Section 11 Powers to wind up schemes - Pensions Act 1995. LINK.

- monitor compliance with the regulations and identify non-compliance;
- take enforcement action where necessary.

TPR is funded by the General Levy. This levy and its impact is excluded from the definition of a regulatory provision in the Small Business, Enterprise and Employment Act 2015. Therefore, it does not need to be reported on or verified under the Business Impact Target reporting requirements. Any increases in the levy therefore do not count towards the Equivalent Annual Net Direct Costs to Business (EANDCB)[14]. TPR estimates the one-off costs in year 1 to be £16,000 and the ongoing costs to be £62,500. These cost estimates are based on a number of assumptions set out in the additional detail section.

Departmental Policy signoff (SCS): Hilda Massey	Date: 23/07/20
Economist signoff (senior analyst): Joy Thompson	Date: 16/07/20
Better Regulation Unit signoff: Prabhavati Mistry	Date: 08/07/20

Additional detail – policy, analysis, and impacts

Preferred Option

Evidence behind the rationale for intervention

Certain aspects of scheme governance that must be complied with, by occupational DC schemes, are already prescribed in existing legislation. However, not all aspects of what could reasonably be determined as measures of VFM are currently included.

Regulation 23(1)(c)(i) of the Occupational Scheme (Scheme Administration) Regulations 1996[15] does not specify what trustees should consider when assessing how scheme costs and charges represent VFM. The existing regulations are ambiguous or too broad in regulating how such an assessment should be carried out and, therefore, inconsistency of approach by scheme trustees could occur.

TPR already produces quite comprehensive guidance for scheme trustees on what constitutes good scheme governance as well as guidance on how VFM for scheme members can be achieved. However, a large percentage of schemes (mostly small or micro schemes) are still poorly governed. Research carried out by TPR in 2019[16] indicated that adequately completing the VFM for scheme member assessments is a challenge for most pension schemes. Failure to research and take into account the things that members value was the greatest barrier to meeting the requirement.

Without pension schemes properly determining how well their scheme is presenting VFM and taking action where appropriate, badly run schemes could otherwise continue to run to saver detriment. Therefore, amending existing regulations and producing accompanying guidance would give more clarity on what criteria should be considered and inform trustees of those schemes of how to better assess VFM. As this would be prescribed in legislation it is envisaged that compliance would be greater.

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[14] The Equivalent Annual Net Direct Costs to Business (EANDCB) is an estimate of an intervention's annual net direct costs to business in each year that the measure is in force.
[15] The Occupational Pension Schemes (Scheme Administration) Regulations 1996. LINK.
[16] "Defined Contribution trust-based pension schemes research - Report of findings on the 2019 survey". LINK.

As well as evidence showing that larger pension schemes are better governed they generally have more competitive charging structures than smaller schemes. Amending existing regulations would mandate pension schemes of less than £100m in total assets to compare transaction costs, charges and net investment returns with larger pension schemes whilst also assessing their own scheme administration and governance. By doing such an assessment, and where specified pension schemes are not delivering as good VFM, regulations will then nudge them to consolidate into larger, better run pension schemes with potentially greater access to a wider range of investments[17] and potentially better value for scheme members.

Proposed Intervention

Costs and Benefits to Businesses

For the following measures, the '*specified schemes'* in scope are defined as Occupational DC pension schemes including hybrid with a value of total assets of less than £100m that have been running for at least 3 years, excluding Executive Pension Plans (EPPs) and Small Self-Administered Schemes (SSASs) [18]. TPR estimate that there are 2,120 DC schemes[19] (including hybrids and micro schemes, excluding SSASs and EPPs) that are at least 3 years old and have a value of total assets of less than £100m.

<u>One-off familiarisation cost to the defined 'specified schemes' to read guidance and understand the requirements of the absolute and relative assessments and consolidation</u>

The proposed changes will require the *'specified schemes'* to carry out an assessment to review their transaction costs, charges, returns on investment, and quality of administration and governance. Scheme trustees are already required to consider how costs and charges are VFM via existing regulations; for example, documenting how they met the requirements for knowledge and understanding[20] in the Chair's statement and explaining how this enables them to properly carry out their functions[21]. These one-off total costs to *'specified schemes'* are estimated to total £412,700 in the first year[22].

<u>Ongoing cost to the defined 'specified schemes' to complete the additional information in the scheme return regarding VFM</u>

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[17] The impact of DC asset pooling: International evidence. LINK.

[18] Executive Pension Plans (EPPs) and Small Self-Administered Schemes (SSASs) are a type of small/micro schemes typically set up to provide benefits for a small number of a company's directors or key employees.

[19] The Pensions Regulator (TPR) provided an estimate of *"DC schemes (including hybrids and micro schemes, excluding EPPS and SSASs) that are at least 3 years old and have assets under management of less than £100m".*

[20] Sections 247-248 of the Pensions Act 2004

[21] Regulation 23 of the Administrative Regulations

[22] Calculations: (2.5 Hours to Familiarise) *(2,120 Specified Schemes in Scope) *(2.7 Trustees per Scheme in Scope) *(£29.11 Average Hourly Trustee Wage) = £412,700 rounded to the nearest £100. See 'Key Assumptions and Sensitivity Analysis' for more details.

The proposed changes will require trustees of the *'specified schemes'* to indicate in the scheme return whether it delivers VFM or not. These ongoing costs to all *'specified schemes'* are estimated to total £15,400 per year[23].

<u>Ongoing cost to the defined 'specified schemes' to include a more prescriptive VFM assessment in the Chair's statement.</u>

The proposed changes will require trustees of the *'specified schemes'* to include a more prescriptive explanation in the Chair's statement. The total ongoing costs for this element of the requirements are estimated to be £962,700 per year[24].

<u>Ongoing cost to the defined 'specified schemes' in scope to compile the information, carry out the relative assessment and indicate the results</u>

The proposed changes will require trustees of the *'specified schemes'* to carry out a relative assessment to compare their transaction costs, charges, returns on investment to at least three other larger pension schemes[25]. The total ongoing costs for this element of the requirements are estimated to be £185,100 per year[26].

<u>Ongoing cost to the defined 'specified schemes' to actively engage larger pension schemes and determine if they would agree to take them on.</u>

The proposed changes will require the *'specified schemes'* to actively seek out three other schemes which trustees have reasonable grounds to believe would take them on should the *'specified scheme'* decide to move the pension scheme members into a different scheme. The total ongoing costs for this element of the requirements are estimated to be £61,700 per year[27].

For the following measures, schemes in scope are defined as All Occupational DC pension schemes including hybrids, excluding *Executive Pension Plans* (EPPs) and *Small Self-Administered Schemes* (SSASs) [28].

<u>One-off cost to schemes to report on investment returns every year since 2015</u>

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[23] Calculations: (0.25 Hours to Input Extra Information into Scheme Return) *(2,120 Specified Schemes in Scope) *(£29.11 Average Hourly Trustee Wage)

[24] Calculations: (1,530 Corresponding Schemes * £190.26 Estimated Unit Cost) + (440 Corresponding Schemes * £924.13 Estimated Unit Cost) + (150 Corresponding Schemes * £1,766.73 Estimated Unit Cost) = £962,700 rounded to the nearest £100. See "Key Assumptions and Sensitivity Analysis" section for more details.

[25] Either large occupational schemes with assets under management greater than £100 million or personal pension schemes which are not investment regulated schemes or a mixture of both.

[26] Calculations: (3 Hours Required) * (2,120 Specified Schemes in Scope) * (£29.11 Average Hourly Trustee Wage) = £185,100 rounded to the nearest £100

[27] Calculations: (1 Hour Required) * (2,120 Specified Schemes in Scope) * (£29.11 Average Hourly Trustee Wage) = £61,700 rounded to the nearest £100.

[28] 1,740 DC and Hybrid Schemes with 12+ members (excluding EPP & SSAS): The Pensions Regulator, DC trust: presentation of scheme return data 2019 – 2020 Link
1,300 DC Micro Schemes with 2-11 members: The Pensions Regulator estimate
Small self-administered schemes (SSASs – also known as Relevant Small Schemes or RSSs) and executive pension schemes (EPSs) are excluded from these regulations.

The proposed changes will require trustees to report investment returns in each default arrangement and in member selected funds back to at least 2015 as a minimum (some schemes may choose to report back further where figures are available). We assume that it will take all trustees approximately 45 minutes to report on investment returns over the period, based on investment return figures already being available to trustees. These one-off costs are estimated to total approximately £929,100[29] in the first year only.

Ongoing cost to schemes to report investment returns each year

We assume that it will take all trustees approximately 15 minutes to report on investment returns each year, based on investment return figures already being available to trustees. The total ongoing costs for this element of the requirements are estimated to be approximately £309,700 per year[30].

Ongoing cost to schemes who do not currently voluntarily complete the question on Assets Under Management (AUM), to fill out in scheme return

The proposed changes will require trustees to fill out the question on assets under management. It will be a breach of legislation if trustees do not fill it out. We assume that trustees already know the schemes AUM because they are required to include it in their Annual Reports and Accounts. 77% of schemes completed the AUM question voluntarily within the last 3 years. This means 23% of schemes in scope will incur an ongoing cost to complete the AUM question in the scheme return. This gives an ongoing cost of approximately £3,400 per year[31].

Costs and Benefits to Other Affected Parties

The potential benefits of the requirements are discussed qualitatively; these chiefly result from of an increased number of schemes choosing, or being encouraged, to undergo consolidation. However, the potential impact that the measures may have on consolidation rates is not certain. Therefore, at consultation stage, to assume/estimate uncertain second and third order impacts of the requirements, and subsequently quantify benefits as a direct result, would not be proportionate. Furthermore, such assumptions could also result in the risk of underestimating the schemes in scope of the measures over the appraisal period, resulting in an underestimation of the total costs to business.

Benefits to Members

Members of 'specified schemes' in scope could benefit from the introduction of these regulations, specifically those presently in pension schemes that represent poor VFM if the new VFM requirements meant their schemes subsequently choose to undertake consolidation into larger DC schemes, or are able to improve their VFM in line with requirements.

[29] Calculations: (0.75 Hours Required) * (3,040 Schemes) * (14 Funds per Scheme) * (£29.11 Average Hourly Trustee Wage) = £929,100 rounded to the nearest £100
[30] Calculation: (0.25 Hours Required) * (3,040 Schemes) * (14 Funds per Scheme) * (£29.11 Average Hourly Trustee Wage) = £309,700 rounded to the nearest £100
[31] Calculations: (0.17 Hours Required) * (23% * 3,040 Schemes) * (£29.11 Average Hourly Trustee Wage) = £3,400 rounded to the nearest £100

A key benefit for members of 'specified schemes' choosing to consolidate relates to TPR research of DC schemes finding "*a significant correlation between the effectiveness of pension scheme governance and scale*". Therefore, increased consolidation in the DC scheme market could lead to benefits from there being fewer members with their savings in the sorts of smaller or especially small schemes where TPR "*found many instances of weaker governance*" and where "*strong governance*" was "*found rarely*"[32]. So consolidating could ultimately improve the overall standards of governance and improved outcomes for pension savings.

An additional benefit that could accrue to members of poor VFM schemes that are encouraged to go on and consolidate into larger schemes could be that those members may be able to enjoy the economies of scale such as a potentially greater access to a wider range of investment opportunities[33] as well as often lower charges (as found in the Pension Charges Survey 2015[34]), which themselves can improve the prospects of better net returns.

Furthermore, research suggests that people care about the impact that their money has on society and the environment[35]. Consolidation may result in more individuals being members of sufficiently large schemes able to invest in illiquid assets[36] and the 'real economy', such as renewable energy or infrastructure projects. This could give members an increased sense of ownership of, and engagement with, their pension pot.

Costs to TPR

Table 1 sets out the estimated one-off costs provided by TPR. TPR estimate the cost of adding one question to the scheme return to be £4,000. Assuming that 4 new questions are required, this gives a total one-off cost of £16,000.

Table 1: Estimated one-off costs to TPR in Year 1

One-off costs in year 1	Estimated cost to TPR
Cost to add 4 questions to scheme return	£16,000

Source: The Pensions Regulator, unpublished data

Table 2 sets out the estimated ongoing costs provided by TPR for monitoring and enforcing compliance with the requirement to carry out the more prescriptive assessment(s), submit the information in the scheme return and report investment returns.

Table 2: Estimated ongoing costs to TPR

Ongoing costs	Estimated cost to TPR (per year)
Total cost	£62,500
Of which,	-
Case Officer	*£25,500*
Lawyer	*£25,500*

32 'Investment Innovation and Future Consolidation' (Feb 2019). Link. Pages 18-19.
33 The impact of DC asset pooling: International evidence. LINK.
34 The Pension Charges Survey (2015) - Table 3.1. LINK
35 Navigating ESG: a practical guide - https://www.dcif.co.uk/wp-content/uploads/2018/04/navigating-esg-final-lo-res.pdf
36 Discussed in 'Investment Innovation and Future Consolidation' following on from the Patient Capital Review

Team Leader	£11,500

Source: The Pensions Regulator, unpublished data

These cost estimates assume the amount of work would be similar to an RPNA[37] enquiry and that TPR identify the schemes through the scheme return.

Wider Economic and Societal Impacts

One key wider benefit of an increase in consolidation could be the increased share of assets saved in large, well-governed DC schemes potentially able to direct funds towards longer-term, illiquid investments[38]. This could mean that key, potentially strategically important, sectors of the economy such as smaller innovative firms, housing, infrastructure and green infrastructure receive more investment flows than previously (in the less consolidated DC occupational pension scheme market), which can have wide-ranging impacts across society, as discussed in the Patient Capital Review[39].

Another longer-term benefit that could arise in the event of a more consolidated DC occupational pensions scheme landscape could be that more individuals in larger schemes that are typically found to be better governed[40] and with lower investment charges[41].This could result in not only better retirement outcomes/higher incomes for these individual members in retirement, but could also have positive wider impacts in the forms of their increased consumption & expenditure in retirement, as well as potentially improved health outcomes as a result of their higher material standards of living in retirement.

Key Assumptions and Sensitivity Analysis

General Assumptions Used in Cost Calculations

- 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 & Directors[42].
    - 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.
- We also assume approximately 2.7 trustees per relevant scheme, based on calculations using TPR data on '*Number of Trustees – by scheme size'*[43].
- We have assumed an average of 14 funds per DC scheme in scope, calculated using "*Disclosure of costs, charges and investments in DC occupational pensions*" information[44].
- For familiarisation costs we assume a reading time of 6 minutes per page for Trustees.

[37] Recovery Plan Not Agreed - In this instance a third party notice would be sent to the employer and TPR are expecting to carry out a similar amount of investigation prior to issuing the penalty.
[38] The impact of DC asset pooling: International evidence. LINK.
[39] Patient Capital Review. Link.
[40] 'Investment Innovation and Future Consolidation' (Feb 2019). LINK. Pages 18-19.
[41] The Pension Charges Survey (2015) - Table 3.1. LINK
[42] 2019 Annual Survey of hours and Earnings (ASHE). Link.
[43] IA Number DWP0045, Figure 3.2.2. LINK.
[44] Disclosure of costs, charges and investments in DC occupational pensions. February 2018. Link.

- The number of 'specified schemes' in scope for some measures is assumed to remain broadly the same over the appraisal period.
    - This assumption is based on previous trends in the DC landscape, considered in the context of Automatic Enrolment and Master Trust Authorisation.
    - The potential second and third order impacts that the measures may have on consolidation rates are not certain. Therefore, at consultation stage, to quantify such uncertain second and third order impacts of the requirements, would not be proportionate as such assumptions would risk underestimating the schemes in scope of the measures over the appraisal period, resulting in an underestimation of the total costs to business.

The following are key areas of sensitivity for the potential costs and benefits of the regulations.

<u>Ongoing cost to the defined 'specified schemes' to include a more prescriptive VFM assessment in the Chair's statement</u>

We assume that the cost for the specified schemes in scope of producing a more prescriptive VFM assessment in the Chair Statement will constitute approximately 50% of the cost of producing a complete Chair Statement itself. The cost of producing a Chair Statement is assumed to have remained constant in real terms since their costs were estimated by TPR for the "*Minimum Governance Standards for DC trust-based schemes*" impact assessment in 2014[45].

The unit costs (to the nearest £10) for a VFM assessment are estimated to be £190 for specified schemes with fewer than 100 members, £920 for specified schemes with 100 to 999 members, and £1,770 for schemes with over 1000 members. Given TPR estimated breakdowns of the specified schemes in scope by membership size, the total ongoing costs are estimated to be £962,700 per year[46].

When allowing for sensitivity around the unit cost estimates of 50 per cent the ongoing costs decrease to £481,400 or increases to £1,444,100.

<u>Ongoing cost to the defined 'specified schemes' in scope to compile the information, carry out the relative assessment and indicate the results</u>

We assume that it will take a trustees of a 'specified scheme' approximately 3 hours to carry out a relative assessment to compare their transaction costs, charges, returns on investment to at least three other larger pension schemes[47]. The ongoing costs for this element of the requirements are estimated to be £185,100 per year[48]. When allowing for

[45] IA Number DWP0045, Figure 3.2.2. LINK.
[46] Calculations: (1,530 Corresponding Schemes * £190.26 Estimated Unit Cost) + (440 Corresponding Schemes * £924.13 Estimated Unit Cost) + (150 Corresponding Schemes * £1,766.73 Estimated Unit Cost) = £962,700 rounded to the nearest £100
[47] Either large occupational schemes with assets under management greater than £100 million or personal pension schemes which are not investment regulated schemes or a mixture of both.
[48] Calculations: (3 Hours Required) * (2,120 Specified Schemes in Scope) * (£29.11 Average Hourly Trustee Wage) = £185,100 rounded to the nearest £100

sensitivity around the time assumptions of 50 per cent the one-off cost decreases to £92,600 and increases to £277,700.

One-off cost to schemes to report on investment returns every year since 2015

We assume that it will take trustees approximately 45 minutes to report on investment returns over the period, based on investment return figures already being available to trustees giving a one-off cost of approximately £929,100 in the first year only. When allowing for sensitivity around the time assumptions of 50 per cent the one-off cost decreases to £464,600 and increases to £1,393,700.

Ongoing cost to schemes to report investment returns each year

We assume that it will take all trustees approximately 15 minutes to report on investment returns each year, based on investment return figures already being available to trustees giving an ongoing cost of approximately £309,700 per year. When allowing for sensitivity around the time assumptions of 50 per cent the ongoing cost decreases to £154,900 and increases to £464,600.

One-off and ongoing costs to TPR

The cost estimates provided by TPR estimate a one-off cost of £16,000 in the first year and an ongoing cost of £62,500 per year.

- When allowing for sensitivity around the one-off cost assumptions of 25 per cent the one-off cost decreases to £12,000 and increases to £20,000.
- When allowing for sensitivity of 25 per cent around the assumptions on the number of additional questions required in the scheme return, the one-off cost decreases to £12,000 and increases to £20,000.
- When allowing for sensitivity around the ongoing cost assumptions of 50 per cent the ongoing cost per year decreases to £31,300 and increases to £93,800.

Small and Micro Business Assessment

Scope of Regulations

The proposed regulations will impact Occupational DC pension schemes including hybrid schemes but excluding EPP and SSASs. These particular small and micro pension schemes (EPPs and SSASs) have been deemed not relevant to and out of scope of the regulations. Most small businesses do not administer their own pension schemes, but instead use an external provider to meet their duties.

The regulations will affect pension scheme trustees differently depending on the size of the scheme, as measured by Total Assets. These differences are summarised in table 3.

Table 3: Requirements by size of scheme

Schemes, regardless of value of total assets value	**Total assets value of less than £100m that have been running for at least 3 years**
Report on investment returns every year since 2015	
Calculate and report on investment returns each year	
Complete the AUM question in the scheme return (if not completed voluntarily)	

	Complete the additional information in the scheme return regarding value for members
	Include a more prescriptive value for members assessment in the Chair Statement
	Compile the information, carry out the relative assessment and indicate the results
	Actively engage larger schemes and determine if they would agree to take them on

Data on DC Schemes by Size

Table 4 shows that the majority of DC pension schemes in scope have fewer than 100 members. This table refers to scheme size and is not a direct measure of the number of employees in the underlying sponsoring employer.

Table 4: Number of DC schemes by scheme size[49]

Number of Members	**Number of Schemes (includes hybrid schemes)**
2-11	1,300
12-99	850
100-999	500
1,000-4,999	250
5,000+	150
Total	**3,040**

Source: The Pensions Regulator Scheme Return 2019 and Micro Scheme estimate 2020

The costs to business fall to the trustees of DC pension schemes so small and micro businesses that sponsor DC schemes may be affected. However, assessing the impact of the proposed changes on this group is difficult, as small and micro pension schemes may not necessarily correspond to small and micro businesses[50]. As there is currently no robust evidence to link pension scheme size to employer size, it is disproportionate to accurately assess the impact on small and micro businesses.

The Annual Survey of Hours and Earnings (ASHE) dataset provides information on the size of DC sponsoring employers with active members. This will only include those who are contributing to a DC pension so will exclude members who are in schemes closed for future accrual but it helps to provide an indication of the size of sponsoring employers.

Table 5 shows the proportion of Private sector and Not for Profit active DC pension scheme members by employer size. The majority of active DC pension scheme members work in businesses with more than 50 employees. Approximately 18% and 11% of active DC members work in Small and Micro businesses respectively.

[49] 1,740 DC and Hybrid Schemes with 12+ members: The Pensions Regulator, DC trust: presentation of scheme return data 2019 – 2020 Link
1,300 DC Micro Schemes with 2-11 members: The Pensions Regulator estimate
[50] For example, a large firm may sponsor a small scheme with only a few members. Similarly, many small and micro businesses participate in large multi-employer schemes or master trusts.

Table 5: Proportion of DC sponsoring employers, by employer size[51]

Size of Employers	Proportion of DC members[52]
0	0%
1-9	11%
10-49	18%
50-99	7%
100-499	13%
500-999	6%
1000+	46%
All sizes	**100%**

Source: ONS Annual survey of Hours and Earnings, Great Britain, 2018

If these small and micro employers sponsor smaller sized pension schemes (rather than participating in a commercial multi-employer scheme) then they may encounter a higher cost as a result of this measure relative to their overall costs. However as noted above, small and micro businesses are not the same as small and micro pension schemes. The Employers' Pension Provision Survey[53] shows type of pension provision by size of employer. 30 per cent of private sector employers and 22 per cent of micro organisations offered access to National Employment Savings Trust (NEST) in 2017. Small employers were the most likely to offer access to NEST with 64 per cent of small organisations offering access to NEST in 2017. As many small and micro businesses use large pension schemes, we anticipate no disproportionate impact on small or micro employers as a whole.

Monitoring and Evaluation

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

[51] DWP estimates derived from ONS Annual Survey of Hours and Earnings (GB)
[52] Figures are rounded to the nearest 1%
[53] Employers' Pension Provision Survey 2017 Tables 2.4 and 2.5 Link

Summary of Total Costs[54]

Table 6: One-off costs to the pre-defined 'specified schemes' in scope to understand and familiarise themselves with the guidance, and ongoing costs to complete the additional information on VFM in future scheme returns; include a more prescriptive value for members' assessment in the Chair Statement, to actively engage larger schemes and determine if they would agree to take them on and finally to compile the information, carry out the relative assessment and indicate the results.

Type Of Cost	Scheme Volumes	Cost	Frequency	Assumptions and Rationale
One-off	2,120	£412,700	Once (year one)	An assumed 2.5 hours per trustee to familiarise with the guidance and understand the requirements.
Ongoing		£1,225,000*	Yearly	An assumed 0.25 hours needed by Trustees to complete the extra information sections of the scheme return. An assumed 1 hour needed by Trustees to engage larger schemes and determine if they would agree to take them on. An assumed 3 hours needed by Trustees to compile the information, carry out the relative assessment and indicate the results. Assumed cost of a VFM assessment to be 50% of the cost to a scheme of producing a 'Chair Statement'.
Total Cost	£412,700 in year one and £1,225,000 per year			

** This Total Ongoing-Costs is from the combined costs to "complete the additional information in the scheme return regarding VFM" (£15,400), "include a more prescriptive VFM assessment in the Chair's statement" (£962,700), "compile the information, carry out the relative assessment and indicate the results" (£185,100) and "to actively engage larger pension schemes and determine if they would agree to take them on" (£61,700)[55].*

Table 7: One-off and ongoing cost to schemes to report on investment returns every year since 2015

Type Of Cost	Scheme Volumes	Cost	Frequency	Assumptions and Rationale
One-off	3,040	£929,100	Once (year one)	We have assumed that investment return figures will already be available to trustees.
Ongoing		£309,700	Yearly	
Total Cost	£929,100 in year one and £309,700 per year			

[54] All costs are rounded to the nearest £100.
[55] £1,225,000 = (£15,400 + £962,700 + £61,700 + £185,100) ← This is the sum total of the ongoing annual costs to 'specified schemes' that are detailed in the "Costs & Benefits to Businesses" section.

Table 8: Ongoing cost to schemes who do not currently voluntarily complete the question on Assets Under Management (AUM), to fill out in scheme return

Type Of Cost	Scheme Volumes	Cost	Frequency	Assumptions and Rationale
Ongoing	699	£3,400	Yearly	An assumed 0.17 hours for one trustee per scheme to fill in the relevant AUM figure in the scheme return. We assume that the required AUM figures will be readily available to trustees.
Total Cost	£3,400 per year			

Table 9: One-off and ongoing costs to TPR

Type Of Cost	Scheme Volumes	Cost	Frequency	Assumptions and Rationale
One-off	N/A	£16,000	Once (year one)	TPR assume they will need to add 4 questions to the scheme return.
Ongoing		£62,500	Yearly	TPR assume the work would be similar to an RPNA[56] enquiry and that they would identify the schemes through the scheme return.
Total Cost	£16,000 in year one and £62,500 per year			

[56] Recovery Plan Not Agreed - In this instance a third party notice would be sent to the employer and TPR are expecting to carry out a similar amount of investigation prior to issuing the penalty.