

Title: Simpler Annual Benefit Statements IA No: RPC Reference No: RPC-DWP-5097(1) Lead department or agency: Department for Work and Pensions Other departments or agencies: N/A	Impact Assessment (IA)
	Date: 22 September 2021
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Secondary
	Contact for enquiries: Matt Lawless

Summary: Intervention and Options	RPC Opinion: Fit for purpose
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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
-£28.9m	-£28.9m	£3.4m	Qualifying provision

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

Changes in the private pensions landscape mean that millions more individuals have started saving for a private pension (through automatic enrolment), and increasingly they have multiple pension pots. However, low levels of engagement with pension saving means that individuals remain unprepared to plan for retirement and may make sub-optimal pension decisions leading to the risk of poorer retirement outcomes. Government intervention is necessary to promote engagement with retirement planning (which can be considered a merit good¹), through ensuring that the existing regulatory requirement to provide individuals with annual pension benefit statements results in them receiving more accessible, engaging and consistent documents.

What are the policy objectives of the action or intervention and the intended effects?

To ensure the provision of shorter, simpler and consistent annual pension benefit statements to individuals in defined contribution schemes used for automatic enrolment in order to:

- Increase individuals' awareness and understanding of their pension information and their estimated retirement income;
- Build a greater sense of individual control and ownership of their pension saving as a whole;
- Support individuals' retirement planning and decision making during the accumulation (saving) stage.

¹ A merit good is a good which when consumed provides external benefits, although these may not be fully recognised – hence the good is under-consumed.

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 move to universal use of short, simple and consistent annual pension benefit statements and members will continue to receive statements in a variety of formats, with continued low levels of member engagement in pensions.

Option 1: Alternative to legislation. Encourage schemes to move to voluntary adoption of simple, short and consistent statements. However, despite the availability of a free standardised template adoption has not happened. Without regulation we would expect slow or partial convergence so that members still receive inconsistent information. This would undermine the objectives and limits benefits for members.

Option 2: Government to regulate: (the preferred option). Regulation will lead to the use of consistent, short, simpler statements for members (except pensioner members) in certain defined contribution schemes used for automatic enrolment. This option is preferred as the only one that ensures that all schemes in scope will reform their statements within a reasonable timeframe.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 10 / 2027

Does implementation go beyond minimum EU requirements?		N/A		
Is this measure likely to impact on international trade and investment?		No		
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/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 Lead Analyst: _____ Liz Cole _____ Date: _____ 11/10/21 _____

Summary: Analysis & Evidence

Policy Option 2

Description: Simpler Annual Benefit Statements

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2021	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -43.4	High: 16.5	Best Estimate: -28.9

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	44.4	0.0	44.0
High	44.4	0.0	44.0
Best Estimate	44.4	0.0	44.0

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

Over 10 million employees have been automatically enrolled (AE) into a workplace pension². There are an estimated 50 larger pension scheme providers with Defined Contribution schemes used for AE. These have an estimated average transition cost per provider of £674,208 and a total cost of £33.7million. For the 489 smaller pension scheme providers (with less than 5000 members), we have estimated an average upfront transition cost per provider of £25,000 and a total cost of £12.2million.

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

For providers: there is an opportunity cost for staff implementing simpler statements rather than working on other areas to boost consumer engagement.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0	0.1	0.6
High	0.0	7.2	60.5
Best Estimate	0.0	1.8	15.1

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

Monetised consumer benefits have not been estimated due to a lack of available evidence on how improved engagement and more optimal decision making affects savings outcomes for consumers in aggregate. For providers we estimate a high level net present benefit of £60.5million, arising from the savings in on-going costs of print, production, postage and user testing their annual statements. This is scaled down significantly to reflect qualitative provider feedback to estimate the best and low cases.

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

For consumers: increasing individuals' awareness and understanding of their pension information and their estimated retirement income. Building a greater sense of individual control and ownership of their pension savings as a whole. Supporting better retirement planning and decision making by individuals.

For providers: less resource used on developing and user testing of Annual Benefit Statements.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

The small sample size in DWP data gathering for smaller providers means there is a large uncertainty around the related transition costs (£25,000). A sensitivity analysis (+/- 50%) of smaller provider's transition costs has found that overall costs would be +/- £6.1million. Using a single sample point, there is also large uncertainty around the high level estimate for larger providers' cost savings (£170,000). Reducing the cost savings by 50% decreases the 10 year nominal benefits from £74.4 million to £37.2 million.

² <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/automatic-enrolment-declaration-of-compliance-report>

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 5.1	Benefits: 1.8	Net: 3.4	
			16.8

Evidence Base

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 and 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 10 million additional individuals³ 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 to 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 a paper Annual Benefits Statement (ABS) for each individual membership, which is the key regular update they will receive about their workplace pension saving, unless they have opted to receive the statement digitally.
5. Research shows the difficulty individuals have with accessing and understanding information on their pension savings. FCA's Financial Advice Market Review⁴ finds that people often find

³ <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis>

⁴ <https://www.fca.org.uk/publication/corporate/famr-final-report.pdf>

it difficult to access their data from financial institutions. Pensions Dashboard research also highlighted that many individuals have low understanding of their own pension information⁵.

6. The consequence of this is low levels of knowledge, engagement, and feelings of ownership with pension savings⁶. This creates risks of individuals making poor decisions in both 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 retire⁷. There are low rates of individuals seeking advice and guidance, even when it is in their interest to do so⁸. According to Pension Policy Institute, an estimated £400 million in pensions or other life insurance products is currently left unclaimed⁹.
7. Furthermore 59% of 45-54 year olds say they are confused by their choices at retirement. This figure is 65% for women in the same age category. Only 28% of people said they knew what they planned to do with their retirement savings. This figure is less (24%) for women.¹⁰ The general message is that people prefer simpler language. Terms like probability or likelihood, or technical language (e.g. average, median, percentiles) may be confusing for some people. There is a need to discuss future pension benefits and the uncertainty surrounding them in a simple and straightforward manner.¹¹
8. Access to more easily understandable 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.
9. Research by Ignition House¹² found that the vast majority of savers who said they read their statements, open their document and scan the contents for top line numbers they are interested in: what is in the pension now, what has been paid in the last year, and how much the pension has gone up or down in the last 12 months. In DWP consultations with pension providers the evidence varied significantly on the extent to which current statements (either paper based or digital) are read. This tallied with findings from the FCA's Financial Lives Survey 2017, which reported that only 52% of adults with a DC pension received and read all of their pension statements in the last 12 months and 34% cannot recall receiving a pension statement at all. Ignition House also conducted research in to people's perception of the Simpler Annual Statement:
 - Overall, people were very positive about the Simpler Annual Statement. They felt it was a document that could be understood by people with all levels of financial literacy.
 - 84% agreed that 'it is easy for me to see how much is in the pension pot'. This figure was 73% for those who could not recall receiving a statement.
 - If the document came by post, 87% said they'd be likely to read it. 71% said the same if they had to login to a pension account to access it.

⁵ https://masassets.blob.core.windows.net/cms/files/000/000/837/original/Final_2CV_report_MAS_branded_for_website__23.10.2017.pdf

⁶ https://masassets.blob.core.windows.net/cms/files/000/000/837/original/Final_2CV_report_MAS_branded_for_website__23.10.2017.pdf

⁷ <https://www.fca.org.uk/publication/data/data-bulletin-issue-12.pdf>

⁸ The Money Advice Service, Pensions dashboard research, September 2017

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

⁹ PPI (2018), Briefing Note 110 - Lost Pensions: what's the scale and impact?

<https://www.pensionspolicyinstitute.org.uk/media/2855/201810-bn110-lost-pensions-final.pdf>

¹⁰ <https://www.justgroupplc.co.uk/~media/Files/JJ/JRMS-IR/news-doc/2020/majority-nearing-pension-age-confused-by-their-choices.pdf>

¹¹ OECD Working Papers on Finance, Insurance and Private Pensions No.28. Communicating Pension Risk to DC Plan Members: The Chilean Case of a Pension Risk Simulator. Pablo Antolin, Olga Fuentes. October 2012

¹² https://quietroom.co.uk/wp-content/uploads/Simpler-Annual-Statement-The-Member-Perspective_Ignition-House_FINAL.pdf

- Only 3% of people said they would be less likely to read the Simpler Annual Statement than their current statement. 54% said they'd be more likely to read it.
- For those members who received a statement in the last 12 months but did not read it, 67% said they would be more likely to read the Simpler Annual Statement.

Rationale for intervention

10. Annual Benefit Statements are the one required set of information which members regularly receive about their workplace pension savings. Whilst there are some incentives for pension schemes and providers to improve access to shorter and more engaging information for members, evidence of convergence to date (see paragraph 24 below) suggests that the market will not deliver a consistent approach to annual benefit statements so that members will receive key information in documents that vary in length, format and content. This inconsistency presents an additional barrier to engagement which increases the likelihood that members will find pensions confusing and complex and will fail to engage with their savings and retirement planning.
11. Accessible information on pension saving which enables individuals to better understand their savings and plan for retirement 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 may 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.
12. The Pension Passport trial¹³ interventions show that a similar intervention to the preferred option 2 is effective at increasing the likelihood that people seek advice and guidance for retirement planning. It found that when a simple shorter information pack was provided, there was an increase of 9.8 percentage points in the likelihood of customers in the treatment group visiting the Pension Wise website, relative to the control group.
13. The need to provide more engaging information in shorter, more accessible user-friendly formats is generally recognised by industry. However, whilst providers work to develop their annual benefit statements to make them more engaging to their members, this work does not deliver consistency. Each provider operates in a silo and develops statements suited to their business model and their identification of their member needs but with the growth in ownership of multiple pension pots those members are not in receipt of statements from only one provider and may be receiving a number of statements which, whilst they reflect the user-research conducted by individual providers, are not consistent in length, content or format. That additional layer of complexity when looking at their pension savings may present a barrier which might make it more difficult for a member to understand the whole of their pension savings and plan accordingly.
14. A short, simpler, statement template was developed by an ad-hoc industry group during the review of automatic enrolment in 2017 and since 2018 has been available for use by pension providers without cost. This, however, has not been widely adopted or providers have adopted variants which are not consistent. Despite Government encouragement, it is clear that providers will not move voluntarily to adoption of a consistent statement, and consider there to be insufficient incentive to make the required investment, even though they

¹³ 'Improving engagement with pension decisions: The results from three randomised controlled trials'. Kate Glazebrook, Chris Larkin and Elisabeth Costa. October 2017. <https://www.bi.team/wp-content/uploads/2017/10/Pension-wise-trials.pdf>

may continue to invest in design/re-design of their own statement formats. Whilst there are potential benefits/efficiency gains to pension providers if consumers as a whole are better engaged with pension saving and retirement planning and are encouraged to keep track of their pensions, save more, consolidate, and make more informed decisions, providers continue to look at engagement from the perspective of their business model and their members.

15. Furthermore, even if each pension provider would privately benefit if industry collectively adopts a shorter consistent approach, individual providers may rationally decide not to voluntarily move to use of an industry-standard statement if there was a risk that other providers would not make the investment to do the same and continue to seek a competitive advantage by presenting annual benefit statements in a different way. This suggests Government intervention is necessary to solve this problem.

Policy Objective

16. The overarching aim is to ensure the provision of shorter, simpler and consistent annual pension benefit statements to individuals in defined contribution schemes used for automatic enrolment in order to:

- Increase individuals' awareness and understanding of their pension information and their estimated retirement income;
- Build a greater sense of individual control and ownership of their pension savings as a whole; and
- Support better retirement planning and decision making by individuals the accumulation (saving) stage.

17. Achievement of the policy objective will make better use of the existing regulatory requirement for pension schemes to provide annual pension benefit statements through statements which are intended to be more engaging for recipients.

Description of options considered

Option 0: Do nothing – Government leaves the length, format and style of annual benefit statements to the market

18. This is the status quo, in which the market has not provided a solution that meets the policy objectives. It is possible in future that parts of the pensions industry may move towards annual benefit statements aligned with the standard template developed out of the 2017 Review and which is free for voluntary use. This would deliver some simplification of statements for some members and some degree of consistency. However, this will not lead to overall consistency and members will continue to receive statements in a variety of formats with the opportunity to improve levels of member engagement in pension savings therefore lost.

Option 1: Encourage the market to voluntarily adopt a standard simpler annual benefit statement.

19. Despite the availability of a standardised template since 2017, and expressed Government support for it since 2018, voluntary adoption of the template remains limited and amongst the providers that have adopted it, the template has been varied so that inconsistencies have been introduced. The consultation on simpler statements in 2019 showed a lack of industry consensus and without Government intervention we would expect at best only continued slow or partial convergence around use of the statement template so that members still receive inconsistent information. This would undermine the objectives and limit benefits for members.

Option 2: Government to regulate for use of a standard template by defined contribution schemes used for automatic enrolment: (the preferred option).

20. Under this option, Government will regulate for use of consistent, short, simpler statements for members in certain defined contribution schemes used for automatic enrolment by amending the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. In addition, the proposed regulations will be accompanied by statutory guidance, which will include an illustrative statement template, to support the trustees and managers of schemes in scope to meet the requirements of the proposed new measures.
21. This option is preferred as the only one that ensures that all schemes in scope will reform their statements within a reasonable timeframe.
22. Government has worked with industry on the regulatory approach to ensure that it reflects regulatory requirements for the information that is necessary to populate the template.

Non-monetised costs and benefits of each option

Non-monetised Benefits

23. For option 0, whilst there has been innovation in annual benefit statements amongst pension providers, recent DWP research has determined that there remains a wide variety and inconsistency in the formats. It is clear that the counterfactual option of no intervention with annual benefit statements would not deliver the realisation of benefits from having a consistent, shorter and simpler statement.
24. For option 1, we have seen a limited and partial convergence towards the adoption of simpler statements in the last 2-3 years. We understand from information provided by Ruston Smith (the industry expert who led the design of the simpler statement template) that 7 providers have so far adopted the template. DWP researchers interviewed the 7 providers highlighted and determined that there were inconsistencies in the templates being adopted, which may limit the realisation of the benefits of having a standard template. The 7 providers were however included in the sample for DWP consultations described from paragraph 32 below, as they represented the closest applied evidence on costs and benefits of the policy.
25. For option 2, the results from a recent Randomised Control Trial ('the Pension passport') help crystallise the benefits of regulating the adoption of the simpler statement template. These benefits are described below and can be seen in increased engagement, improved awareness, and the increased adoption of pensions advice and guidance. We would also expect more optimal decision making by individuals as a direct result, however, due to a lack of available evidence have not been able to monetise the benefits of this effect.
26. DWP researchers conducted a comprehensive literature review looking at consultations, reports and impact assessments related to simplifying statements, statements and communications generally. A variety of industries and settings were explored, including pensions statements, but also energy companies' statements, banking and insurance statements, tax related statements, and considered the evidence from both domestic and international sources. Whilst there is evidence on the benefits of including the estimated retirement income on a statement and the benefits in terms of increased understanding and engagement with simpler communications, we were unable to find evidence that was similar enough to the intervention to allow us to form a proxy.

The Pension Passport trial interventions¹⁴

27. The Pension Passport trial sought to test the effect of 'making it simple' on customer engagement. A Pension Passport was designed for the trial, which consolidates all the essential information from a wake-up pack (customers receive either a six-week, or six-month pack, at six weeks and six months before retirement which can range from 50 to over 100 pages) onto one side of A4 paper. We believe the findings from this trial are broadly applicable to the recommended policy option given the product similarities and similar intended aims but it should be noted that the wake-up pack trialled is different to the simpler annual statement. The Pension Passport had two overarching design aims; to reduce the total amount of information customers have to digest, and to increase the salience of the most important information. Roughly half of the trial participants were sent the Pension Passport, while the other half were sent the usual wake-up pack. The overarching aim of the study was to see whether being sent the simpler pension passport positively influenced participant's engagement with their pension(s).
28. Consumer confidence to engage with the market was measured through follow-up surveys, and actual engagement (by measuring website hits/ number of phone calls). The treatment group were given different Pension Wise URLs/ phone numbers to the control group. Hits to the Pension Wise websites were monitored, as well as calls coming in via the different phone numbers. Data was collected via follow-up phone surveys.
29. The results show a large, statistically significant, positive effect of the Pension Passport on the likelihood of visiting the Pension Wise website. 1.05% of people in the control group visited the Pension Wise website via their URL. This is compared to 10.9% of customers in the treatment group who visited the same website. So there was an increase of 9.8 percentage points in the likelihood of customers in the treatment group visiting the Pension Wise website, relative to the control group.
30. Customers in the treatment group were 8.1 percentage points more likely to report that they would 'do something else' as a next step in their retirement journey relative to the control group. Customers in the treatment group relative to the control group were 24.1 percentage points more likely to say the information they were sent prompted them into thinking about taking action.
31. The report concludes that current wakeup packs provide too much information to consumers and so it is difficult for customers to digest all of it and feel empowered to make a decision with their pension pots. The size of the packs could even lead to total disengagement with the material. By focusing on the essential information and by reducing length, engagement and comprehension increases and more customers will take action.

DWP data gathering exercise

32. In January and February 2021 DWP conducted in-depth interviews with a sample of providers to estimate the benefits and costs of adopting simpler statements. The Department ensured that the research was conducted using qualified social researchers, that there was a detailed and structured topic guide and that the responses were all captured and reported. A good sized sample of 19 providers and industry organisations were interviewed in what should be noted was the COVID lockdown period, so the sample was smaller than might otherwise have been expected. However, it is not anticipated that the fact that the interviews, which took place over videoconference, took place during the lockdown period would have skewed the results in any way. Key findings from this research included:

¹⁴ 'Improving engagement with pension decisions: The results from three randomised controlled trials'. Kate Glazebrook, Chris Larkin and Elisabeth Costa. October 2017. <https://www.bi.team/wp-content/uploads/2017/10/Pension-wise-trials.pdf>

- Providers reported that they may see savings in ongoing costs. These savings come from production, print, and the amount of paper they use (see paragraph 33 for examples of these savings). Some providers also noted that there may be savings in distribution costs as well.
 - It was also noted that not having to print as much is good for environmental considerations.
 - Providers also commented that it's beneficial that the statement will be more streamlined and easily comparable. This would provide a greater degree of transparency as the statements are consistent (supporting the policy intent).
 - It was noted that possible savings could accrue from providers not having to conduct user research and redesign their statements.
 - The consensus amongst both early adopters and non-adopters of the template was that the simpler statement is easy to navigate, understandable, informative and clear. It was believed by many that customers want easily understandable information.
33. Although the majority of respondents were unable to specify and quantify the savings, there were some examples of savings in ongoing costs for providers:
- For one provider there were printing savings with a shorter statement. One page of A4 costs 3.5 pence, so cutting down from 16 to 2 pages for each statement would save money. The cost of printing goes down from 56p per statement, to 7p per statement.
 - For another provider, going from 8 to 2 pages saves a third of annual production and distribution costs. Improved member understanding also means less calls through to the call centre as customers can find the necessary information online.
34. The DWP research also found that a majority of larger providers conduct routine reviews of their annual benefit statements as a part of their membership engagement strategies. Given the implementation of preferred option 2, providers expected that there would be less resource used for the development of their ABSs, including less resource used for user testing.

Non-monetised Costs

35. In the DWP research it was noted that there would be possible opportunity costs for staff implementing simpler statements rather than working on other areas to boost engagement.
36. This point was emphasised by one provider, who argued that the main issue with the simpler statements is the opportunity cost during the transition period. They stated that for people who do a lot of engagement activity, including website and literature design, if they're doing the simpler statement they can't be doing other things.
37. DWP research found that conversely, post implementation there was no mention during the interviews with providers of the need for employment restructuring or redundancies amongst staff.

Direct costs and benefits to business calculations

38. The Pensions Regulator (TPR) has concluded that there are currently 539 providers of Defined Contribution (DC) schemes used for Automatic Enrolment. This includes

occupational DC schemes and contract based DC schemes, from a data cut taken from 1 February 2021.

39. As shown in Chart 1 below, the distribution of occupational DC schemes by membership is top heavy. In fact, only 30 occupational schemes have greater than 5000 members. However, by extrapolating data from all schemes being used for automatic enrolment we can see that the largest schemes account for 98.7% of all members (see Table 1 below) and 88.5% of all assets under management (see Table 2 below). We have assumed that there are 20 large (defined as greater than 5000 members) contract based DC schemes being used for AE (actual information is not recorded by TPR), giving an estimated 50 larger providers of DC schemes used for AE. The details of this assumption are outlined in paragraph 51 below.

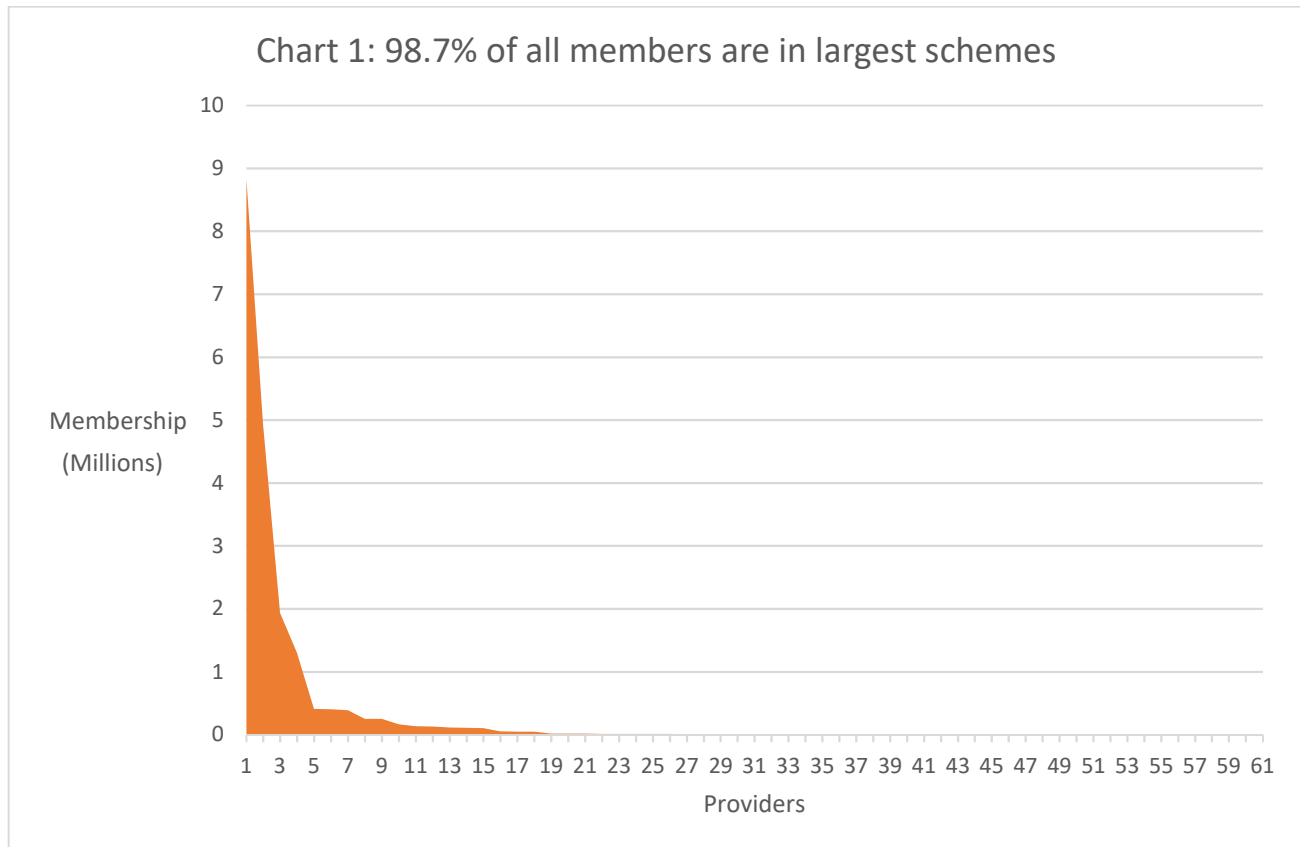


Table 1: Total members by size of scheme

Scheme size (members)	Total members by size (excludes hybrid schemes) - 31/12/2019					Total
	2 to 11	12 to 99	100 to 999	1,000 to 4,999	5,000+	
All schemes being used for AE	2,000	2,000	41,000	187,000	17,514,000	17,747,000
Percentage	0.0%	0.0%	0.2%	1.1%	98.7%	

<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/file/file-four-ae-2020.ashx>

Table 2: Reported assets by size of scheme

Scheme size (members)	Reported assets by size (excludes hybrid and micro schemes) - 31/12/2019				
	12 to 99	100 to 999	1,000 to 4,999	5,000+	Total
All schemes being used for AE	£94,000,000	£1,749,000,000	£5,811,000,000	£58,835,000,000	£66,489,000,000
Percentage	0.1%	2.6%	8.7%	88.5%	

<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/file/file-four-ae-2020.ashx>

40. From DWP consultations with a sample of large providers we were able to estimate that the average transition cost for these providers was £674,208. These costs reflect familiarisation costs and the significant cost of changing IT systems. Where providers estimated a range of costs we have taken the mid-point of this range. There was variation amongst provider estimates and we excluded two estimates that were untypically high. There were no strong relationships observed in the remaining estimates between providers' estimates and membership size or assets under management. We believe that this fact that the estimates for the transition costs were invariant to these factors reflected the nature of changing relatively similar IT systems, rather than for example a standard manufacturing process. The variation that was reported tended to reflect providers' different contractual arrangements with IT sub-contractors. Furthermore, despite conducting a comprehensive literature review we were unable to identify analogous regulations that were costed and would have allowed a sense check on the costs reported by industry.

41. For the 489 smaller providers (we have defined these as having less than 5000 members to align with TPR reporting) DWP has gathered estimates for the costs of the transition; these will be around £25,000. This is best described as limited evidence as, despite multiple requests for evidence and input, we were unable to engage a meaningful number of micro, small and medium providers in the sample. We note that the definition used here of smaller business is not consistent with the Regulatory Policy Committee definition, which is based on the number of staff in each business. However, we are satisfied that the definition that we have used is the most robust readily available and does encompass smaller providers and businesses.

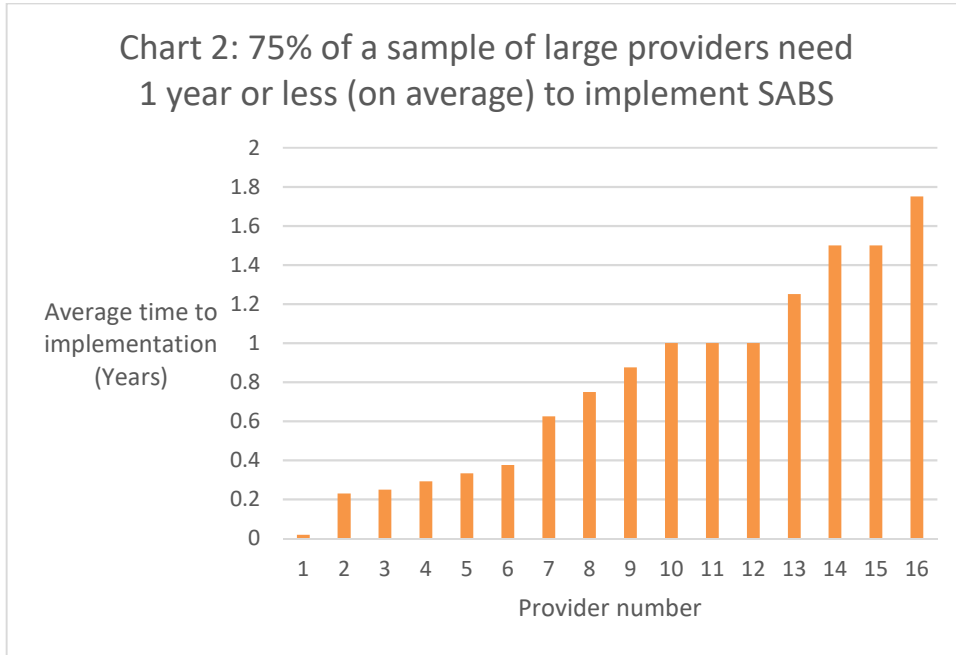
42. In order to calculate the direct costs to business we have multiplied the cost of transition by number of providers in the smaller and larger categories separately – see Table 3 below.

Table 3: Cost to business calculations for the preferred option 2

Provider size (members)	Cost of transition per provider	Number of providers	Total nominal cost
Smaller (2-4999)	£25,000	489	£12,225,000
Larger (5000+)	£674,208	50	£33,710,417
Total		539	£45,935,417

43. From the DWP consultations we are able to estimate that around 75% of larger providers will on average (by taking the mid-points of ranges) complete the transition to simpler statements within 1 year (see Chart 2 below). The remaining 25% of larger providers will on average complete the transition period within 2 years. It should be noted that there was a large variation in the time estimates across the providers. Gathering the regulatory

information, and making system and technology changes (including system migration), for the required data items on the statement were the key elements of the transition that were believed to be particularly time consuming.



44. The DWP research, involving in-depth interviews with 19 providers and industry bodies, found that for some providers there would be savings in ongoing costs from issuing a simpler shorter statement. These savings focussed on the production, print, postage, and amount of paper they use. The savings also represent the reduced cost of user testing of new statements; typically, many providers would previously test and issue new statements on a cyclical basis. Only one larger provider was willing to share their annual ongoing costs of issuing an annual benefit statement – the remaining providers cited business confidentiality concerns. The provider estimated that the ongoing costs would fall from £350,000 per year to £180,000 per year, a saving of £170,000 per year.
45. If we assume that all 50 larger providers have an equivalent ongoing cost saving of £170,000 per year, after the transition period there would be a total nominal benefit of £74,400,000. The impact of this ongoing saving is to change the total nominal value of the policy from a net cost of around £45.9 million to a net benefit of £28.5 million (see Table 4 below). However, as the ongoing savings information is limited to one provider and other providers described ongoing savings estimates as ‘small’ or ‘similar to before the policy’, the £170,000 figure is an outlier and we believe this is a top end estimate. In order to enable us to cost these ongoing savings, these qualitative descriptions brought out during the structured interviews have been interpreted as representing 25% (for a ‘small change’ in costs – our central estimate) and 1% (for ‘similar to before the policy’ – our low estimate) of the savings, in the absence of any more robust quantitative evidence. We believe that the ongoing cost savings for smaller providers would be negligible due to the lower number of annual member statements issued and so have excluded these benefits from the calculations below. Due to the lack of additional evidence from similar policies found during the literature review, these estimates based on qualitative research are the best available.

46. In order to provide scrutiny of the 75% reduction in on-going savings based on only one provider's estimate we have conducted a sensitivity analysis on Table 7 below and calculations based on the evidence reported in paragraph 33 above. Whilst this evidence is not applicable to the overall cost estimates because it forms only part of the costs impacted, it does allow for a sense check. One provider reported that their print costs would reduce from 56p to 7p – a saving of 87%. The second provider reported that the ongoing costs arising from production and distribution would reduce by a third – a saving of 67%. Therefore, as the 75% reduction used for the best estimate does fall between 87% and 67% we are satisfied that it is in the right order of magnitude.

Table 4: Benefits to business calculations for the preferred option 2 (high estimate)

Provider size (members)	Nominal benefits over 10 years per provider	Number of providers	Total nominal benefits (10 years)	Total nominal value (benefits minus costs)
Smaller (2-4999)	-	489	-	-£12,225,000
Larger (5000+)	£1,488,000 (post transition)	50	£74,400,000	£40,689,583
Total		539	£74,400,000	£28,464,583

47. As many providers were planning to layer additional materials alongside the simpler statement so that they can continue to provide information which they have previously used statements to deliver, this would offset some of the potential savings. As these materials are a discretionary addition to the preferred regulated policy option we have not factored in the related costs.

48. We would expect there to be benefits to members from the simpler statements in the form of increased engagement, understanding of and ownership of their pensions. Furthermore, there may be behavioural changes with improved decision making around savings but we have not been able to monetise these effects due to a lack of evidence in the literature. These changes might be realised for example in the form of better decisions around pension freedoms, increased saving for retirement or alternatively the value a consumer places on increased confidence in their savings situation.

49. While we can't estimate the benefits it is possible to calculate what the per member benefit would need to be in order for this policy to have a positive net present value. Table 5 below shows that if members benefit by an equivalent of just 26p on average per annual statement then the policy would break even. This demonstrates that even with a small benefit per member for each statement the costs of the policy change would be effectively covered. The calculation has been made by dividing the estimated cost of the policy by the estimated number of statements across 10 years. It should be noted that as we anticipate the numbers of members who are automatically enrolled to grow in this period that this figure is a maximum and could well be lower.

Table 5: Break-even point analysis for benefits to members

Estimated cost (10 years, constant prices)	Members of AE schemes (excluding hybrids) from Table 1	Number of annual statements (10 years)	Break-even benefit to members per statement
£45,935,417	17,747,000	177,470,000	£0.26

Risks and assumptions

50. As noted in paragraph 41, DWP were able to only engage a small sample in the data gathering from smaller providers. It should therefore be assumed that the transition costs for smaller providers is uncertain. We have therefore conducted a broad based (+/-50%) sensitivity analysis to test the effect on the costs faced by smaller providers. The range in the sensitivity analysis is £6,112,500 (-50%) to £18,337,500 (+50%) – see Table 6 below. At the assumed maximum of +50% for smaller providers, the total cost for all providers would increase to £52,047,917.

Table 6: sensitivity analysis for smaller providers (with less than 5000 members) costs

Change in costs for smaller providers	Cost of transition per smaller provider	Number of providers	Cost for smaller providers
(no change)	£25,000	489	£12,225,000
+50%	£37,500	489	£18,337,500
-50%	£12,500	489	£6,112,500

51. The Pensions Regulator have determined from scheme return data (2019-2020¹⁵) that there are 80 larger schemes being used for automatic enrolment and 870 of all sizes. TPR have undertaken a cleansing and deduplication exercise to conclude that the overall figure for providers of schemes is 539 in February 2021. By applying the ratio from the total numbers of providers to schemes 539/870 (62%), to the 80 schemes, gives the total figure for larger providers at 50.

52. As noted in paragraph 43 above, only one larger provider was willing to share the direct benefits to business of on-going cost savings. This estimate is treated as a high level estimate as other providers described ongoing savings estimates as ‘small’ or ‘similar to before the policy’. We have therefore conducted a sensitivity analysis by reducing the annual figure by 50%, 75% and 99%. Table 7 below shows that over 10 years the nominal benefit to providers post transition would reduce to £0.7 million (-99%), £18.6 million (-75%), £37.2 million (-50%) from £74.4 million. The reduced benefits (by 75%) have been used to determine the best estimate given that the savings were described as small, and the significantly reduced benefits (by 99%) have been used to determine the low estimate to represent savings described as negligible.

¹⁵ <https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/file/file-four-ae-2020.ashx>

Table 7: sensitivity analysis for the direct benefits to larger providers (with more than 5000 members)

Change in benefits for larger providers	On-going benefits per larger provider per year	Number of providers	Nominal benefits for larger providers per year (post transition)	Total nominal benefits post transition period
(no change) High estimate	£170,000	50	£8,500,000	£74.4million
-50%	£85,000	50	£4,250,000	£37.2million
-75% Best estimate	£42,500	50	£2,125,000	£18.6million
-99% Low estimate	£1,700	50	£85,000	£0.7 million

53. There is likely to be a trend of consolidation over time of schemes and pots but this has not been applied to the costs. There are benefits of scale in pension provision and consolidation of schemes has been occurring in recent years. From TPR data we know that between 2009 and 2013, the number of small DC trust-based schemes decreased by over a third from 2,910 to 1,790 and micros by around one fifth from 45,460 to 35,640. This would have an effect of potentially decreasing both the transition and on-going costs for providers.

Impact on small and micro businesses

54. The Pensions Regulator's 2019-2020 data on schemes used for automatic enrolment shows that there are around 4000 members in the small and micro schemes with 2-99 members (see Table 1 above). The membership of small and micro schemes accounts for 0.1% of reported assets (see Table 2 above).

55. 720 schemes were reported in the 2-99 members' category in 2019-2020¹⁶. By applying the adjustment factor of 62% (from paragraph 51 above), for deduplication, it is estimated that there are 446 providers of DC schemes used for AE in 2021. We have multiplied the 446 providers with the cost DWP research determined for smaller providers (£25,000) to give a total transition cost for small and micro businesses at £11,150,000.

Wider impacts

56. A risk was identified by larger providers in the DWP research that the default template for simpler statements will result in a lack of innovation for new and additional information. One provider, suggested including the following information (although they also noted that there would be measurement challenges and difficulties in fitting the information to two pages):

- Government tax relief, where applicable;
- PLSA retirement living standards i.e. what consumers need for a comfortable retirement;

¹⁶ Table 4.1 <https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/file/file-four-ae-2020.ashx>

- See it in combination with the state pension; and,
- Giving the over 50s an alternative to an annuity. Industry information shows fewer people are buying annuities and that giving them options of cash and drawdown helps to crystallise in their minds what their money can buy.

57. As highlighted by the development of pensions Dashboards programme, there is a trend for pensions communications to be moving online. Many of the providers who responded to DWP research noted that regulation focused on the design of paper based statements went against the trend. For example, members of one provider with an app, can look at their pot information at any time. They also issue video statements and are currently piloting an animated statement, which has not rolled out to a wider audience yet, but are seen as the future of communications.

58. DWP research found that for the preferred option there is a perceived lack of flexibility for targeting information in the simpler statements. An industry organisation, would like to see the flexibility to enhance what providers offer customers through the personalisation of statements. They also noted that flexibility is also better suited to their schemes' vulnerable members. However, this does not recognise that schemes will continue to be able to supplement the statement with additional documentation (as long as it is not added to the body of the prescribed template) nor that schemes must continue to have regard to their duty under Equality legislation to provide alternative formats.

Monitoring and Evaluation

59. We will work with TPR and the industry in order to understand and review the post implementation impact of simpler statements on DC Schemes used for AE to inform DWP's review of the policy five years from when the regulations come into effect in October 2022.