Regulatory Policy Committee	**Validation of the One-in, Two-out Status and the Net Direct Impact on Business**
Validation Impact Assessment (IA)	Workplace Pension Reform Secondary Legislation 2015 – Alternative DB Quality Requirement
Lead Department/Agency	Department for Work and Pensions
IA Number	DWP0049
Origin	Domestic
Expected date of implementation	SNR 9
Date of Regulatory Triage Confirmation	6 October 2014
Date submitted to RPC	13 February 2015
Date of RPC Validation	9 March 2015
RPC reference	RPC14-FT-DWP-2215(2)
Departmental Assessment	
One-in, Two-out status	OUT
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	Not quantified
RPC Assessment	**VALIDATED**

Summary RPC comments

The validation IA is fit for purpose.

The IA says that this is a deregulatory proposal (an 'OUT'). The Department estimates that there will be a net benefit to employers but is unable to monetise this benefit. The Department explains that it would not be proportionate to undertake a survey to seek to monetise the impact and this appears to be reasonable. In accordance with the guidance, the proposal will be treated as zero net cost for One-in, Two-out purposes.

Background (extracts from IA)

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

"Currently where employers wish to use a defined benefit (DB) scheme to meet the quality requirements for Automatic Enrolment (AE) it must either be contracted out of the state second pension or it must meet the Test Scheme Standard (TSS). From April 2016 contracting out will come to an end so all firms wishing to use a DB scheme for AE purposes would have to use the TSS. The existing test is viewed as complex, Government intervention is needed to give employers more flexibility to satisfy the quality test. The

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alternative DB test is designed to be a simpler test for determining whether a DB scheme meets the quality requirements for use under AE. This change is permissive so employers may choose to use either the existing test or the new alternative DB quality test."

What are the policy objectives and the intended effects?

"The policy objective is to provide an alternative for employers to determine if a DB scheme meets the quality requirements for use under automatic enrolment. This alternative should be of particular help to employers with formerly contracted out schemes who from 2016 onwards would otherwise need to ensure that their schemes met the TSS. The changes are designed to minimise the administrative burden on employers. Furthermore it is permissive so employers may choose which test to use, depending on if it is in their interest to do so."

RPC comments

Currently, employers offering a defined benefit scheme (DB) can meet the quality requirements for automatic enrolment (AE) by either contracting out of the state second pension or using the Test Scheme Standard test (TSS). The proposal gives an employer the flexibility to use the TSS or a new, simpler test to meet AE quality requirements. Employers affected by the proposal are:

- those who have staged in AE and use DB schemes through contracting out; and
- those who have not staged in AE and intend to use DB schemes to meet AE requirements.

The Department explains that these changes are permissive and assumes that employers are only likely to adopt the changes if the benefits are at least equal to the costs. The IA explains that the Department's consultation did not provide sufficient information to enable it to monetise the costs and benefits of the proposal. Respondents were, however, supportive of the introduction of the new test and commented they would expect a majority of employers with open DB schemes to adopt the changes.

The IA explains that to obtain evidence on the number of employers and individuals who would take advantage of the proposal would require a survey of employers. The Department considers that the cost of undertaking these surveys would be disproportionate. This appears to be reasonable.

The IA says that this is a deregulatory proposal (an 'OUT'). The Department estimates that there will be a net benefit to employers but is unable to monetise this benefit. The Department explains that it would not be proportionate to undertake a survey to seek to monetise the impact. In accordance with the guidance, the proposal will be treated as zero net cost for One-in, Two-out purposes.

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Signed		**Michael Gibbons,** Chairman

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