 Regulatory Policy Committee	Opinion	
Impact Assessment (IA)	Charges in Qualifying Pension Schemes	
Lead Department/Agency	Department for Work and Pensions	
Stage	Final	
IA number	DWP0042	
Origin	Domestic	
Expected date of implementation (and SNR number)	April 2013 (SNR 7)	
Date submitted to RPC	05/03/2014	
RPC Opinion date and reference	17/03/2014	RPC13-DWP-1950(2)
Overall Assessment	GREEN	
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	£18.8 million	
<p>RPC comments</p> <p>The IA is fit for purpose. The IA assesses the impact of proposals relating to charges in pensions schemes qualifying for use as automatic enrolment pension schemes and how the proposals intend to support the overall automatic enrolment programme.</p> <p>The Department has separately provided additional information on the potential impact on small and micro businesses within the sector. The IA would benefit from the inclusion of this additional information.</p>		
<p>Background (extracts from IA)</p> <p>What is the problem under consideration? Why is government intervention necessary?</p> <p><i>Automatic enrolment will generate an extra £11 billion a year in pension savings from around six to nine million people newly saving or saving more into a pension. In most cases people will be automatically enrolled into a defined-contribution (DC) pension scheme. These schemes must deliver the best possible value for money and good outcomes for scheme members.</i></p> <p><i>The recent Office of Fair Trading (OFT) DC market study¹ found that competition alone cannot be relied upon to drive value for money in the DC workplace pension market due to weaknesses in the buyer side of the market and the complexity of the product. The lack of transparency of pension scheme charges creates information asymmetry in the pensions market whereby the employer or scheme member often does not have the information or understanding of what is a good value scheme. In addition there is a clear principal agent problem in the automatic enrolment market where the employer selects the scheme on behalf of its</i></p>		

¹ Office of Fair Trading (OFT) , September 2013 (revised February 2014), *Defined contribution workplace pension market study*, OFT 1505, http://www.oft.gov.uk/shared_of/market-studies/oft1505;jsessionid=776C021FE0A4F261C6131B1C0E3C3FA8

employees but may not understand or act in the employees best interests potentially automatically enrolling employees into poor value schemes. Government intervention is necessary to ensure all individuals automatically enrolled into the default funds in qualifying schemes get value for money. This intervention is based on improving the transparency of member-borne charges and ensuring charges are fair and appropriate. This will help maintain confidence in automatic enrolment and the pensions industry that supports it.

What are the policy objectives and the intended effects?

To ensure that members' retirement savings are not eroded by high or unfair charges; to ensure those running pension schemes have the required visibility of cost and charge information; to support the Automatic Enrolment programme and maintain trust and confidence in pension providers supporting it; to ensure a diverse competitive market for workplace pensions.

Four policy options were considered:

- 1. Do nothing;*
- 2. Introduce a statutory requirement on providers and schemes to disclose pension scheme charges in a consistent way;*
- 3. Charge controls on default funds in qualifying schemes; and*
- 4. The preferred option is a combination of option (2) and option (3) – to introduce a statutory requirement on providers and schemes to disclose pension scheme charges and the introduction of charge controls on default funds in qualifying schemes.*

Comments on the robustness of the OITO assessment

The IA says that this is a regulatory proposal. The proposal will impose a net cost on business (an 'IN') with an Equivalent Annual Net Cost to Business of £18.8 million. Based on the evidence provided, this is a reasonable assessment of the likely impacts and is consistent with the current Better Regulation Framework Manual (paragraph 1.9.10).

Comments on the robustness of the Small & Micro Business Assessment (SaMBA)

The proposals regulate business and are intended to come into force after 1 April 2014. Therefore the SaMBA is applicable.

The IA does not provide a specific SaMBA section. However, the IA does set out measures that have been taken to minimise the impact on smaller employers.

Furthermore, the Department has provided additional information on small and micro businesses as pension providers, explaining that schemes are either run by large businesses or are 'trust-based' schemes run by a large employer on behalf of their employees.

The IA would benefit from the inclusion of the additional information provided.

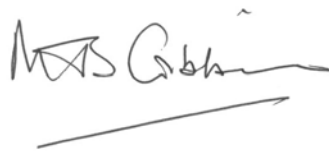
Quality of the analysis and evidence presented in the IA

The IA proposes to introduce a statutory requirement on providers and schemes to disclose pension scheme charges and introduce charge controls on default funds in qualifying schemes.

This results in two main costs on pension providers; the ongoing administrative cost from disclosing the required information to employers, scheme members and trustees estimated at £0.04 million each year, and a net loss in revenue where schemes offered for automatic enrolment do not comply with the charge controls. The Department has estimated the net loss of revenue on the industry rather than the impact on profits due to the unavailability of commercially sensitive information regarding costs. The estimate captures the difference in revenue for schemes that are currently charging above the level of the default charge cap and the loss of revenue to pension providers if they then offer these schemes at the cap level. This net loss is estimated to be £195 million over ten years.

The resultant cost to employers from the proposals is the transitional cost of setting up a new pension scheme. This will be required where an employer is unable to renegotiate the terms of their current scheme with their existing provider to bring the charges into line with the proposed controls. The best estimate of these transitional costs is £55.5 million.

Signed

A handwritten signature in black ink, appearing to read 'Michael Gibbons', with a long horizontal line underneath it.

Michael Gibbons, Chairman