

Title: Minimum Governance Standards for DC trust-based schemes IA No: DWP0045 Lead department or agency: DWP Other departments or agencies:	Impact Assessment (IA)
	Date: 16.09.2014
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Secondary Legislation
	Contact for enquiries: Nicola Gilpin (0207 449 7452)
Summary: Intervention and Options	RPC: GREEN

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out?	Measure qualifies as
Not quantified ¹	-£55.7 million	£5.05 million	YES	IN

What is the problem under consideration? Why is government intervention necessary? 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 retirement outcomes for scheme members. The 2013 Office of Fair Trading (OFT) DC market study² 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. Government intervention is necessary to ensure all individuals saving into a workplace pension get value for money, protecting members from consumer detriment. In the absence of minimum governance standards set out in legislation the risk of a market investigation by the Competition and Markets Authority would be likely to create uncertainty, disruption, costs and reputational damage to the pensions industry. This Impact Assessment focuses on minimum governance standards for DC trust-based schemes only. Minimum governance standards in DC contract-based schemes are considered separately by the Financial Conduct Authority in their Consultation Paper 'Proposed rules for independent governance committees' published in August 2014³.

What are the policy objectives and the intended effects? The policy objective is to ensure that all individuals saving into DC workplace pensions get value for money. The OFT concluded that good quality, independent scheme governance can help to mitigate the impact of the weak buyer side of the market by ensuring ongoing scrutiny of value for money on behalf of scheme members. They found that governance of many schemes across the market is currently not sufficiently strong to provide this scrutiny. Introducing minimum governance standards for DC trust-based schemes, (considered in this IA) and contract-based schemes (covered separately by the FCA) will address this weakness in the market, to help to maintain trust in automatic enrolment and private pension savings and improve retirement outcomes for scheme members.

¹ It is not possible to robustly estimate the long-run benefit to individual scheme members of improvements in scheme governance. The total net present value is therefore not quantified.

² Office of Fair Trading (OFT), 2013, Defined contribution workplace pension market study, OFT 1505

http://webarchive.nationalarchives.gov.uk/20131101164215/http://www.oft.gov.uk/shared_oft/market-studies/of1505

³ <http://www.fca.org.uk/your-fca/documents/consultation-papers/cp14-16>

What policy options have been considered, including any alternatives to regulation? Please justify preferred option. Two options have been considered: 1) do nothing (continue to work on a voluntary basis with The Pensions Regulator (TPR) and 2) legislate for minimum governance standards in DC trust-based schemes.

Do nothing is not a reasonable option. Although some savers would see an improvement in governance, this would not provide sufficient protection for all savers. It is likely that this option would not be sufficient to avoid a market investigation of the DC workplace pensions market by the Competition and Markets Authority.

Option 2 is intended to improve governance to help protect savers from the consequence of the weak demand side identified in the OFT's analysis of the market for DC workplace pensions and is the Government's preferred option. This option forms part of the overall package of reforms that the Government is proposing to address the weak demand side, including action to protect members from unfair or excessive charges (considered in a separate final stage IA, published in March 2014 alongside the Better Workplace Pensions Command Paper) and involves legislating to strengthen governance in DC trust-based schemes by introducing new minimum governance standards and reporting requirements.

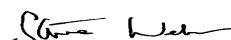
We have concluded non-legislative options would not be sufficient to address the risks identified by the OFT. Our preferred option is option 2 - a legislative approach - to ensure that members of all DC trust-based schemes are protected, not just those who are saving into schemes which have chosen to meet The Pensions Regulators best practice or voluntary requirements. This is especially important given the limited choice most workplace savers will have about which scheme to save into.

The requirements on DC contract-based schemes will be made by the FCA through changes to their rules, rather than through pensions legislation. The FCA has published a full cost-benefit analysis assessing the impact of these rules that introduce new governance requirements including Independent Governance Committees for providers of DC contract-based schemes. This Impact Assessment therefore does not cover the costs and benefits of the new requirements on DC contract-based schemes.

Will the policy be reviewed? No	If applicable, set review date: N/A				
Does implementation go beyond minimum EU requirements?					N/A
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			Traded: N/A	Non-traded: N/A	

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

Signed by the responsible Minister:



Date: 16.09.2014

Summary: Analysis & Evidence

Policy Option 1

Description: Do nothing: Government continues to work with The Pensions Regulator to improve governance standards in DC trust-based schemes on a voluntary basis

FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	High: 0	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low				
High				
Best Estimate	0		0	0

Description and scale of key monetised costs by ‘main affected groups’ There would be no additional regulatory costs for Pension Providers, scheme members, or employers sponsoring DC trust-based pension schemes under this option. Any additional voluntary governance requirements for DC trust-based schemes would be set out in strengthened TPR guidance without a legislative underpin.

Other key non-monetised costs by ‘main affected groups’

The risk of a market investigation by the Competition and Markets Authority (i.e. in the absence of minimum governance standards set out in legislation) would be likely to create uncertainty, disruption and reputational damage for the pension industry.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant)	Total Benefit (Present Value)
Low				
High				
Best Estimate	0		0	0

Description and scale of key monetised benefits by ‘main affected groups’

Other key non-monetised benefits by ‘main affected groups’ There may be benefits for some individuals if voluntary non-regulatory initiatives lead to improvements in scheme governance. This would lead to a better alignment of incentives and therefore better value for money and retirement outcomes for some individuals. Employers would also benefit from good governance; they would be getting value for money and be able to demonstrate to their employees that they are in a good scheme. The pensions industry may benefit from these measures through increased consumer confidence in the industry.

Key assumptions/sensitivities/risks	Discount rate (%)
There are no regulatory costs associated with this option as all activity is voluntary. As this is the baseline, this option has zero costs and benefits (relative to itself). There remains a risk that there will be governance gaps in the market for some DC trust-based scheme members or that non regulatory approaches do not go far enough to improve governance standards. The continued risk of consumer detriment may lead to a market investigation of the DC workplace pension market by the Competition and Markets Authority.	3.5

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0	Benefits: 0	Net: 0	N/A	N/A

Summary: Analysis & Evidence

Policy Option 2

Description: Minimum governance standards through regulation of DC-trust based schemes

FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)						
			Low:	High:	Best Estimate: N/A				
COSTS (£m)		Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)		Total Cost (Present Value)				
Low		1							
High									
Best Estimate			13.1		111.5				
Description and scale of key monetised costs by 'main affected groups' The cost of meeting the standards and reporting requirements for DC trust-based schemes could be met either by the scheme members or by the employer sponsoring the scheme, or a combination of the two. The cost of producing a statement in the audited accounts setting out how the governance standards have been met is expected to be £8.6million per year in 2013/14 prices (covering around 17,000 DC trust-based schemes). Mastertrusts ¹ will need to meet some specific requirements in addition to those required for all DC trust-based schemes. Mastertrusts will be required to have a minimum of three trustees, of which two must be independent, we estimate that the salary costs of meeting this requirement will be around £1.4 million per year in 2013/14 prices (covering around 50 mastertrusts). There will also be recruitment costs every 5 years, estimated at £410,000 in 2013/14 prices. There will also be additional costs associated with meeting the other requirements, we estimate a one-off cost of £3.1m in 2014/15 prices for a demographic analysis of the membership profile. We estimate a cost of £8.5m in 2013/14 prices for reviewing the default strategy every 3 years.									
Other key non-monetised costs by 'main affected groups' There may be some costs associated with establishing a chair of a trustee board. Evidence provided by pension providers in response to the consultation suggest that where a chair does not already exist the associated costs with establishing a chair would be minimal – as a chair could be appointed from amongst the existing trustees.									
BENEFITS (£m)		Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant)		Total Benefit (Present Value)				
Low		N/A							
High									
Best Estimate			N/A		N/A				
Description and scale of key monetised benefits by 'main affected groups' N/A									
Other key non-monetised benefits by 'main affected groups' All members will benefit from good quality governance. This will lead to a better alignment of incentives and therefore better value for money, higher levels of private pension savings and higher retirement incomes for individuals. It is not possible to robustly quantify the long-run benefits for individuals. Employers will also benefit from good scheme governance, as they will be getting value for money and they can demonstrate to their employees that the schemes they are providing are good, which may have benefits for workforce management. The pensions industry may benefit from these measures through increased consumer confidence in the industry.									
Key assumptions/sensitivities/risks			Discount rate (%)						
Some governance requirements for DC trust-based schemes are already set out in legislation and supported by a TPR Code of Practice. The additional costs associated with meeting some of the new legislative requirements will vary depending on the extent to which they are already being met on a voluntary basis. Obtaining cost information on the activities we intend to legislate for is difficult. Costs for these activities are likely to vary by scheme size, but also by the type of scheme (mastertrust, unbundled or bundled) and the preferences of the scheme. We have used TPR survey evidence where available to assess the extent to which existing activity is taking place. To monetise the costs of the new requirements we have worked with TPR and data provided by industry experts. For the purposes of the EANCB calculation we have assumed the costs are split equally between the employer and the scheme based on discussions with the TPR and the ratio between bundled and unbundled schemes (see paragraph 60).									

BUSINESS ASSESSMENT (Option 2)

¹ The Pensions Regulator define a mastertrust as an occupational trust-based pension scheme established by declaration of trust which is or has been promoted to provide benefits to employers which are not connected and where each employer group is not included in a separate section with its own trustees. For this purpose, employers are connected if they are part of the same group of companies (including partially owned subsidiaries and joint ventures).

Direct impact on business (Equivalent Annual) £m:			In scope of OIQQ?	Measure qualifies as
Costs: 5.05	Benefits: 0	Net: 5.05	Yes	In

Background

1. To meet the fiscal challenge of an ageing society the UK needs its working age population to save more in workplace pension schemes. Requiring employers to enrol their employees automatically into a workplace scheme will result in much higher participation than purely voluntary approaches to private saving. Automatic enrolment began in 2012 for the largest employers and will be gradually rolled out to medium, small and micro employers by 2017. It will generate an extra £11 billion a year in private pension savings from around six to nine million people⁵ newly saving or saving more into a pension. To date 4.7 million eligible individuals have been automatically enrolled into a pension scheme⁶ and average opt-out rates have been much lower than predicted, at around 9%⁷.
2. Automatic enrolment drives a fundamental shift in the dynamics of the workplace pensions market. The old model - whereby most individuals had to actively decide whether to join a pension scheme and the pensions industry had to spend time and money persuading them to do so – has gone. Instead, employers have a legal duty to enrol their employees into a pension scheme and inertia keeps most of them there. This leads to a huge increase in the number of workplace saving arrangements and funds flowing through the pensions industry. The Government believes that this shift brings a new responsibility to ensure minimum standards apply in workplace schemes, including ensuring that schemes are overseen by competent bodies acting in members' interests. The creation of these minimum standards will help maintain confidence in automatic enrolment and the pensions industry that supports it.
3. The Government has undertaken three consultations on how best to create minimum standards that reflect these changed dynamics. In the summer of 2013 it issued a Call for Evidence on minimum governance standards in workplace defined contribution schemes that asked for views on governance, scale, investment and administration standards. In November 2013 this was followed by a Consultation on Charges, which made proposals about protecting savers from high and unfair charges. Proposed measures included a default fund charge cap and bans on certain charging practices inappropriate for the automatic enrolment environment. In March 2014 the Government published the 'Better Workplace Pensions' Command Paper, which responded to the charges consultation and built on the findings from the Call for Evidence to consult on minimum governance standards for workplace schemes.
4. In January 2013 the Office of Fair Trading (OFT) (now the Competition and Markets Authority) launched a market study to investigate whether the DC workplace pension market was working well for consumers. With the roll-out of automatic enrolment the OFT considered it timely to consider whether competition between pension providers is set up to work in the best interests of current and future savers. The OFT study was undertaken over a period of nine months and involved consultation with DWP, The Pensions Regulator and the Financial Services Authority. The OFT also engaged with key players including the National Association of Pension Funds, the Association of British Insurers,

⁵ DWP, July 2012, *Workplace Pension Reform: digest of key analysis*

⁶ The Pensions Regulator (TPR), October 2014, *Automatic Enrolment Registration Report*
<http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-monthly-registration-report.pdf>

⁷ DWP, 2013, *Automatic Enrolment evaluation report 2013*, based on research with large employers

the Investment Management Association, pension providers, trade bodies and those that represent employers and employees. Their report provides the most up-to-date and thorough analysis of the DC workplace pension market available. Conclusions from the OFT's work are set out overleaf and inform the policies considered in this Impact Assessment.

5. This Impact Assessment accompanies the Government's response to the consultation on governance standards contained in the Better Workplace Pensions Command Paper. These final proposals are the result of considerable consultation, and are intended to strengthen the weak demand side in this market identified by the OFT.

Minimum Governance Standards for contract-based pension schemes and the role of the Financial Conduct Authority (FCA)

6. The market for workplace DC pensions has evolved over many years. This has led to two main types of workplace DC pension scheme:
 - occupational pension schemes (required to be 'trust-based' schemes)
 - work-based personal pension schemes (commonly known as 'contract-based' schemes).
7. Trust-based schemes are established under trust and administered by individual trustees or a corporate trustee (the 'trustees'). As trustees of these schemes, they have a general duty to act and exercise their powers in the best interests of the scheme membership. The Pensions Regulator (TPR) is the regulator of occupational pension schemes and focuses mainly on the conduct of the trustees.
8. Contract-based pensions involve a contract between each individual member and a product provider. There is no direct contractual relationship between the employer and the product provider regarding the pension itself. The FCA is responsible for regulating the conduct (and, in some cases, the financial stability) of providers of contract-based schemes. The FCA's remit extends across financial services – including individual personal pensions – and its focus is on firms, such as product providers and advisers, who are active in the market. The FCA requires firms to pay due regard to the interests of their customers and treat them fairly.
9. Both trust-based schemes and contract-based schemes are capable of delivering good outcomes for members of workplace DC pension schemes and TPR and the FCA have similar expectations for scheme quality and member outcomes. Despite existing regulatory measures to safeguard scheme members that apply to both trust-based schemes and contract-based schemes, the OFT found that more action by Government (as well as by regulators and the pensions industry) was needed to ensure that schemes deliver value for money to members. We are therefore taking forward proposals to regulate for minimum governance standards for trust-based schemes and the FCA will set standards for contract-based schemes.
10. The FCA's regulatory powers are set through the Financial Services and Markets Act (FSMA). Using these powers the FCA may amend the rules that apply to providers of contract-based schemes. The FCA is currently consulting on the rule changes needed to deliver minimum governance standards for contract-based schemes through the implementation of Independent Governance Committees (IGCs). Their consultation was

published on the 6th August and concluded on the 10th October and includes a cost benefit analysis in line with the Government's objective for Accounting for Regulatory Impact⁸. No legislative changes are required to deliver these rule changes – the FCA will make the changes, taking into account the consultation outcome, using its existing powers. The impact of these changes is therefore out of scope for One-In, Two-Out.

11. However, to consistently deliver minimum governance standards across all trust-based pensions schemes, DWP will be amending the legislative framework for these schemes. This impact assessment analyses the impact of changes to pensions legislation that will affect trust-based schemes.

Rationale for intervention

12. The introduction of 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 pension⁹. Automatic enrolment will change the pensions landscape with many more people saving and many more employers choosing a workplace pension scheme on behalf of their employees. Against this backdrop of structural change in the DC workplace pensions market it is important to ensure that savers have confidence in the system and they are getting value for money through low cost, high quality pension schemes.
13. In September 2013 the OFT published the findings of its market study into DC workplace pensions. Overall they found that competition alone cannot be relied upon to drive value for money for all savers in the DC workplace pension market. Their report, based on extensive and rigorous analysis and argument, concluded that:
 - the DC market had one of the weakest buyer sides they had witnessed and that competition alone could not be relied upon to drive good retirement outcomes for consumers;
 - the weak buyer side is primarily a result of a principal-agent problem – the employer chooses a workplace scheme for their employees but has different incentives. The complexity of the market and products further complicates the ability of employers to make decisions in the best interest of employees;
 - good quality, independent scheme governance can help to mitigate the impact of the weak buyer side of the market by ensuring ongoing scrutiny of value for money on behalf of scheme members, but that the governance of many schemes across the market is not sufficiently strong to provide this scrutiny;
 - the reference test for a market investigation had been met, but such an investigation by the competition authorities was not required on the basis that government and industry would work together in addressing the weak demand side and safeguarding against consumer detriment.

⁸ <http://www.fca.org.uk/news/cp14-16>

⁹ DWP estimates that there are around 6 million people are already saving in private pension prior to the start of automatic enrolment; Source: Workplace Pension Reform Regulations Impact Assessment; 12 January 2010; DWP.

Weaknesses in the buyer side of the market

14. The OFT identified three significant weaknesses in the buyer side of the market. Firstly, unlike other, well functioning markets, the ultimate beneficiary of the pension (the individual) in a workplace scheme is not responsible for selecting the scheme and monitoring value for money. This gives rise to a clear principal-agent problem, as employers will often be driven by factors other than what is best for individuals. The potential for misaligned incentives is evident from research carried out by the National Association of Pension Funds (NAPF) and B&CE¹⁰, which found that whilst many employers are motivated by keeping staff happy, and smaller employers are often the most concerned about the welfare of their employees, the very smallest employers tend to be most concerned with survival, and minimising the costs of automatic enrolment to them as an employer.
15. The second weakness identified by the OFT was the complexity of the product. There is considerable survey evidence showing that individuals have little understanding or engagement with their pension¹¹. In addition, given the benefits are realised in the distant future; beneficiaries are unable, or lack the incentive, to influence employers to act in their interests.
16. The final weakness they identified in the buyer side of the market was the ability of employers to drive competition on key elements of value for money. The OFT found that many employers do not have the necessary understanding of workplace pensions to make good judgements on the value for money of their pension schemes. In addition, many employers may not have the resource or willingness to provide ongoing governance or scrutiny of scheme value for money.

Improving Governance to tackle weaknesses in the buyer side of the market

17. The OFT study emphasises improving scheme governance as a way of mitigating the buyer side weaknesses in the market. Good quality, independent scheme governance can ensure ongoing scrutiny of value for money on behalf of scheme members, helping to achieve good retirement outcomes. They said: "*well governed schemes are more likely to provide value for money by reviewing the quality of administration and investment management services and the costs and charges on an ongoing basis. If governance is not performed well, it can lead to member detriment due to the use of outdated investment strategies that do not deliver returns or expose members to excessive risks, or result in them paying higher charges than necessary to leave them with sub-standard administration.*"
18. The OFT found that the governance of many schemes across the market is not sufficiently strong to provide this scrutiny at the moment. Whilst governance appears to be working well for many large occupational schemes, or in some cases where employers have put together internal governance panels, governance gaps have developed that increase the risk that many other scheme members will not get value for money in the long term. In

¹⁰ NAPF and B&CE, September 2012, *Telling Employers about DC Pension Charges: Research*

¹¹ Office of Fair Trading (OFT), September 2013, *Defined contribution workplace pension market study*, p.16 and p.76

particular, the OFT raised concerns that trustees of many smaller schemes are not regularly scrutinising value for money of their investment choices or scheme administration and that in many cases those scheme's trustees do not have the necessary expertise either.

19. The fact that some smaller occupational schemes are not being governed effectively is reflected in The Pension Regulator's 2014 Governance Survey, which found that large DC schemes are more likely than medium or small DC schemes to view their trustee board's governance as very effective – 78% of large DC schemes view their trustee board's governance as very effective compared to 58% of medium DC schemes and 30% of small DC schemes¹².
20. The 2013 Governance Survey found that one in five (22%) of the DC schemes asked were not aware of The Pensions Regulator's 'six principles for good workplace DC'¹³. The principles were published in 2011. Of those schemes that were aware, just under a third (31%) assess their scheme as meeting all the principles¹⁴.
21. On the basis of the evidence they collected the OFT concluded that they had "*concerns that lack of capability and incentive misalignment on the buyer side of the market, and the difficulty for many employers and employees in assessing and comparing quality, make it very difficult to generate competition on administration, the investment strategy and the quality of scheme governance*". In light of their findings, the OFT recommended that the Government introduce a minimum governance standard for all pension schemes, in order to ensure a consistent degree of ongoing scrutiny and assessment of value for money for members.

Conclusions from OFT and the Government response

22. The consultation response accompanying this Impact Assessment sets out a number of measures to strengthen governance in DC trust-based schemes. In July the FCA published a consultation and a cost-benefit analysis on measures to strengthen governance in DC contract-based schemes, including the introduction of Independent Governance Committees.
23. Based on the evidence presented by the OFT and our own engagement with stakeholders through the consultation, the Government believes it is better to legislate for minimum governance standards in DC trust-based schemes to ensure that all individuals automatically enrolled into these schemes are defaulted into well governed, high quality arrangements. During the consultation there was broad and deep consensus on the need for minimum standards, including from industry bodies such as the Association of British Insurers (ABI) and the National Association of Pension Funds. Not only will this help to ensure good retirement outcomes for savers, it will also help to build confidence in the workplace pensions industry as it grows to deliver a significant increase in the levels of workplace pension saving.

¹² <http://www.thepensionsregulator.gov.uk/docs/governance-survey-technical-report-2014>

¹³ <http://www.thepensionsregulator.gov.uk/about-us/principles-igg-dc.aspx>

¹⁴ <http://www.thepensionsregulator.gov.uk/docs/governance-survey-technical-report-2013.pdf>

24. The introduction of new minimum governance standards in both DC trust-based and DC contract-based schemes is a crucial element in a package of proposals that the Government is introducing to ensure that all those saving into a pension scheme can be confident that they will be in an efficient, high quality scheme. These include the charge controls set out in the Better Workplace Pensions command paper and considered in the accompanying final stage Impact Assessment.

Policy objectives

25. The policy objective is to ensure that all individuals saving into a workplace pension get value for money and thus enjoy greater income in retirement from private pension sources. In the mid-term review the Government set out its commitment to:

“Ensuring that our pensions system is fair and affordable, and provides dignity for our citizens in their old age is a priority for the Government. That means working towards a better, simple, single basic pension, protecting pensioners against erosions in the value of their pensions and introducing a new system which will encourage young people to put aside enough money for their old age.”

26. Introducing minimum governance standards in DC trust -based schemes will help to ensure good retirement outcomes for savers and build confidence in the workplace pensions industry. These measures will make a direct contribution to the Government’s commitment to ensuring our pensions system is fair and affordable and encouraging people to save for their old age.
27. The OFT recommended that good quality, independent scheme governance can help to mitigate the impact of the weak buyer side of the market by ensuring ongoing scrutiny of value for money on behalf of scheme members. They found that governance of many schemes across the market is currently not sufficiently strong to provide this scrutiny. Introducing minimum governance standards in DC trust-based schemes will address this weakness in the market and improve retirement outcomes for scheme members.

Description of options

28. Two options were considered during the consultation for DC trust-based schemes:

Option 1: Maintaining the status quo (Do nothing), Government continues to work with The Pensions Regulator to improve governance on a voluntary basis.

29. Under this scenario, the Government would maintain the status quo. The Government would continue to work with TPR to improve governance standards in DC trust-based schemes on a voluntary basis. Additional governance requirements for DC trust-based schemes could be set out in strengthened TPR guidance, without requirements being set in legislation. Members of schemes that do not voluntarily comply with either of these initiatives would not be protected from possible detriment that could result from poorly governed schemes.
30. This approach would likely be of concern to the competition authorities. The Office of Fair Trading decided to stop short of referring the workplace pensions market for a full market

investigation (see paragraph 10) on the basis that industry and government would work together to address the market failures they identified and safeguard against consumer detriment. Failure to act on their recommendations would increase the risk of a full market investigation by the competition authorities. Such an investigation would likely to create uncertainty, disruption and reputation damage for the pensions industry.

31. The OFT concluded that the buyer side of the DC workplace pensions market was one of the weakest they had analysed in recent years and recommended that Government embed a minimum governance standard that would apply to all pension schemes to mitigate the effect of the weak buyer side.
32. This option serves as a baseline option for assessing the impact of the other options considered. For the purposes of the IA, this option therefore has zero costs and benefits (relative to itself).

Option 2: Introduce legislative requirements for new minimum governance standards in DC workplace pensions

33. To address the weaknesses flowing from the buyer side of the DC workplace pension market, the OFT recommended that Government should embed a minimum governance standard. The DWP consulted in the Better Workplace Pensions Command Paper to introduce a set of minimum governance standards that would apply to all DC trust-based schemes.
34. The detail and application of these minimum standards for DC trust-based schemes is considered below, and will entail changes to how schemes are currently governed. These standards will improve oversight of DC trust-based schemes. The new structures and practices they introduce will also build the foundations for more sophisticated measures of value for money in the medium and longer terms.

Preferred option

35. Our preferred option is option 2 – to act on the OFT’s recommendation that Government embeds a minimum governance standard by legislating for minimum governance standards in DC trust-based schemes. This differs from the option set out in the consultation stage Impact Assessment as minimum standards for DC contract-based schemes and the introduction of Independent Governance Committees are not covered in this final stage Impact Assessment but in the cost benefit analysis published by the FCA and will be implemented by changes to FCA rules.
36. The responses to the consultation demonstrated that there was a broad and deep consensus on the need for minimum standards, including support from industry bodies such as the ABI and NAPF.

“We support the proposed quality standards for trust-based governance, and welcome the DWP’s proposal that from April 2015, there will be requirements for trustees to consider and report against these quality standards. We also support that these minimum quality standards will be backed by legislation.”

(Provider representative)

37. We think a proportionate legislative approach is the best option because we want to ensure all DC trust-based scheme members are protected and guaranteed a minimum standard of governance, and that The Pensions Regulator can intervene where members are not being sufficiently protected. This will help to mitigate the buyer side weaknesses in the market and ensure that schemes are being run in members' interests, leading to better retirement outcomes for individuals.
38. In addition, without regulatory action there is a risk of a market investigation by the Competition and Markets Authority. The OFT were clear in their assessment of the DC workplace pensions market that the buyer side was one of the weakest they had analysed in recent years and that action was needed now to embed a minimum governance standard across all pension schemes.
39. Evidence from the TPR Governance Survey 2013 indicates that 22% of occupational DC schemes are not aware of TPR's publication on 'Six principles for good workplace DC'¹⁵ adding to the case that intervention is required. We have considered whether non-legislative options – including, for example, strengthening TPR guidance on governance – would be sufficient to address the risks identified by the OFT. However we have concluded that legislative measures are necessary to ensure that members of all DC trust-based schemes are protected, not just those who are saving into schemes which have chosen to meet best practice or voluntary requirements.
40. Despite the considerable material on good DC governance that already exists the OFT identified a number of schemes where members are at risk of receiving poor value for money. It therefore does not seem likely that adding to this non-compulsory material would sufficiently protect savers, and particularly not to the extent that it could remedy the weaknesses identified by the OFT. There has been nothing preventing schemes from improving governance in the past, but as this approach has failed to deliver sufficient improvements, strengthened legislation is now needed to ensure that all savers in defined contribution trust-based pension schemes can be confident that they are getting value for money and saving in an efficient, high quality scheme.
41. We will continue to work with The Pensions Regulator and the industry on non-regulatory measures. However, whilst we welcome this work, we think that enshrining additional governance requirements in legislation is the only way to ensure these standards are met by all DC trust-based schemes, providing protection for all members.

Standards for DC trust based schemes

42. As set out in the accompanying consultation response, trustees of all DC trust-based schemes¹⁶ will be required through secondary legislation to ensure that the following minimum governance standards are met:

¹⁵ <http://www.thepensionsregulator.gov.uk/docs/governance-survey-technical-report-2013.pdf>. Information for micro schemes is not available.

¹⁶ With the exception of those small self administered schemes where all the members are trustees, and are therefore governing their own pension savings

- Default investment strategies must be designed in members' interests with a clear statement of aims, objective and structure and how these are appropriate for their membership
 - The default investment strategy and net performance of the underlying funds must be regularly reviewed, and action taken to make any necessary changes.
 - Core scheme financial transactions must be processed promptly and accurately.
 - Trustees must assess the levels of charges borne by scheme members.
 - Trustees must assess the costs incurred through investment of pension assets.
 - The trustee board must have, or have access to, all of the knowledge and competencies necessary to properly run the scheme.
43. Schemes will also be required to have a chair of trustees for the first time, who will have responsibility for making an annual statement reporting how the above standards have been met. There is evidence that some current requirements on DC trust-based schemes are not being met. The introduction of a chair of trustees is expected to increase compliance with requirements by introducing personal accountability for reporting on these requirements (notwithstanding each individual trustee's personal accountability for ensuring legislation is complied with).
44. Trust deeds and rules will be prevented from being able to constrain trustees in relation to their choice of third party service provider. This is in order to address the concern raised by the OFT that some trustees, particularly in mastertrusts, may be constrained in their ability to fully exercise their fiduciary duty through the ability to move scheme assets to alternative fund managers and administrators where it is in members' interests.
45. Finally, there will be new requirements for independent governance of mastertrusts, in particular to address the OFT's concerns that some of these arrangements may have similar potential for conflicts of interest as contract-based schemes. Mastertrusts will have to have a minimum of three trustees, of which two – including the chair of trustees – must be independent of the scheme's providers. Trustees must be appointed for fixed terms of no longer than 5 years, or a cumulative maximum of 10 years (unless they are a professional trustee firm in which case the 10 year maximum does not apply). Trustees for mastertrusts must be recruited via an open and transparent recruitment process and mastertrusts must have arrangements in place to ensure that members' views are directly represented.
46. The Pensions Regulator will be responsible for monitoring compliance with the minimum governance standards in trust-based DC pension schemes. The costs of monitoring compliance will be met within The Pensions Regulator's existing budget. The new legislative requirements are specific, making them easier to monitor and enforce.
47. The Pensions Regulator will provide guidance and toolkits to pension schemes, to aid understanding and compliance with the new standards, building on their existing work relating to good governance. We expect the guidance and toolkits, along with the advanced notice of these measures via three consultations on how best to create minimum standards, will enable all pension schemes to meet the minimum governance standards.

Costs and benefits

48. The main published source of information on pension scheme governance is the TPR Governance Survey. This is a representative sample of trust-based occupational pension schemes. The survey monitors the governance and administration of trust-based schemes, explores levels of trustee knowledge and probes areas of scheme practice. It does not provide any quantitative information on the cost of undertaking governance or administration activity. We have used the Governance Survey, where possible, to make an assessment of governance activity that is already taking place.
49. Information on the costs associated with undertaking governance and administration activities is not readily available. Costs for these activities are likely to vary by scheme size, but also by the type of scheme (mastertrust, unbundled¹⁷ or bundled¹⁸) and the preferences of the scheme. During the summer 2013 Call for Evidence and the recent March 2014 consultation we specifically requested additional information on the costs and benefits associated with our proposals. The consultation provided only a very limited amount of information that we could use to inform our estimates of the impacts of these proposals.
50. We have subsequently worked with The Pensions Regulator (TPR) to quantify the impacts of the new reporting requirements which all schemes will be required to meet. In addition we have used data from the TPR and desk based research to quantify the impact of the new requirements on mastertrusts to have a minimum of three trustees and for the majority of these to be independent of the scheme's service providers.
51. In order to make an assessment of the impact of the other requirements we have contacted a range of industry stakeholders who have provided us with some indicative information on potential costs. We have used this information to make an assessment of the potential scale of these requirements.
52. In order to gather comprehensive, representative information we would need to undertake a large-scale representative survey of DC trust-based schemes. Previous experience with surveys of this type has demonstrated the difficulty in obtaining cost information from pension schemes as awareness of costs is generally low. A previous DWP working paper on pension scheme administration costs¹⁹ found that the majority of respondents did not know the approximate rate charged per hour for any of the professional services they were asked about. In 2011 the Landscape and Charges Survey found that only 28 per cent of trust-based schemes believed that members paid any charges at all, with significantly lower awareness amongst smaller firms. In the 2013 Landscape and Charges Survey it was explained to employers how they could find out about the level of Annual Management Charges paid by members. As a result of this approach, 74 per cent of employers of trust-based schemes confirmed that their members did pay a charge in 2013. The OFT also found that there was insufficient visibility and comparability of charges in their study of the DC workplace pensions market.

¹⁷ In an unbundled DC trust based scheme the administration and investments are managed separately by selected third party providers.

¹⁸ In a bundled DC trust based scheme a single third party provider provides both the administration and investment services.

¹⁹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214389/WP91.pdf

53. Following an extensive 9 month study of the DC workplace pensions market the OFT identified governance gaps and made a clear recommendation that the Government should introduce a minimum governance standard for all pension schemes to ensure consistent ongoing scrutiny and value for money for scheme members. The industry is expecting minimum governance standards from April 2015 and needs sufficient time to prepare. A large scale survey could only be done at significant cost, would take several months and may not yield data of sufficient quality for the reasons set out above. In the absence of minimum governance standards set out in legislation the risk of a market investigation by the Competition and Markets Authority would be likely to create uncertainty, disruption and reputational damage to the pensions industry. For these reasons undertaking a large-scale data collection exercise is considered disproportionate. The estimates presented in this final stage Impact Assessment represent our best estimates given the data constraints that we have faced.
54. The monetised and non-monetised costs and benefits on key groups are summarised in table 1. Further details and description of the impacts of option 2, the final stage proposal follow this table. It is important to note that this is not a static comparison of options but a dynamic comparison of how things might evolve under the different options.

Table 1: Summary description of monetised/non monetised costs and benefits

	Employers	Pension Industry	Individuals
Option 1: Do nothing Government to continue to work with The Pensions Regulator to improve governance on a voluntary basis	<p>No additional regulatory cost</p> <p>Existing requirements on trustees are set out by The Pensions Regulator (TPR) in its DC Code of Practice, and supplemented by non-legislative guidance. This Code is aimed at ensuring trustees are able to perform their functions correctly and competently.</p> <p>Strengthened governance requirements could be introduced via TPR guidance, but as these would not be required by legislation these are out of scope as no new legislative burden would be imposed.</p> <p>Any costs would be met by employers or scheme members, or a combination of the two.</p>	<p>No additional regulatory cost</p> <p>Risk of a market investigation by the Competition and Markets Authority, which would be likely to carry significant disruption and costs to the pension industry.</p>	<p>There may be benefits for individuals if the voluntary non-regulatory initiatives lead to improvements in governance.</p> <p>There remains a risk that there will be governance gaps in the market for some scheme members or that non-regulatory approaches do not go far enough to improve governance standards so some may see no benefits at all.</p>
Option 2: Introduce legislative requirements for new minimum governance standards in DC trust-based schemes	<p>DC trust-based schemes will be required to ensure that they meet and report on minimum governance standards.</p> <p>Some schemes will be meeting some of these requirements already, particularly those currently present in TPR's Code of Practice. The additional cost of meeting the minimum governance standards will therefore depend on the extent to which</p>	<p>Newly strengthened governance of DC trust-based schemes may lead to renegotiation of costs and charges with service providers and/or better investment returns through more appropriate investment strategies for members. This will however vary and is not possible to quantify,</p> <p>The industry would not be at risk of a market investigation</p>	<p>All DC trust-based scheme members will benefit from good quality governance. This would lead to a better alignment of incentives and therefore better value for money and improved retirement outcomes for individuals.</p>

	<p>they are already being met.</p> <p>The cost of meeting the requirement to report on how the governance standards are being met could be anywhere from £350-£3250 per year depending on scheme size. We estimate that the total annual cost will be £8.6million per year for DC trust-based schemes in 2013/14 prices.</p> <p>The additional costs for mastertrusts will also vary, depending on whether they already meet the minimum requirements. We estimate the ongoing costs of retaining the required number of independent trustees to be £1.4million in 2013/14 prices. We would also expect a cost of £410,000 in 2013/14 prices every 5 years to cover the costs of a recruitment exercise.</p> <p>We estimate that the cost of reviewing the default strategy will be £8.5m in 2013/14 prices every 3 years and some schemes may require a one-off demographic analysis of the membership profile estimated at £ 3.1m in 2013/14 prices.</p> <p>These costs may be met by employers or scheme members, or a combination of the two.</p> <p>Employers will be getting value for money and they can demonstrate to their employees that the schemes they are providing are good.</p>	<p>by the Competition and Markets Authority.</p> <p>The pensions industry may benefit from these measures through increased consumer confidence in the industry.</p>	
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Impacts of option 2

Benefits of minimum governance standards for DC trust-based schemes

55. The introduction of minimum governance standards in DC trust-based schemes will ensure that all individuals saving in these schemes will benefit from good quality governance, leading to a better alignment of incentives. There are currently 2.7 million people saving in DC trust-based schemes²⁰. Better governance should lead to better value for money, higher private savings levels and higher retirement incomes for individuals. The new governance and reporting requirements will drive better performance from trustees, by ensuring that they consider the key aspects of running the scheme, and

²⁰ The Pensions Regulator (TPR), *DC trust: a presentation of scheme return data 2013-14*

particularly those that will affect members of the default fund. In the 2013 Landscape and Charges Survey Pension Providers and employee benefit consultants saw scheme governance as key to ensuring good retirement outcomes:

'The most important feature in any pension scheme is how well it is governed, because if somebody is looking at how well that scheme is doing on an ongoing basis, then you have got a good chance that if the investments are under-performing or the members are not paying enough, that somebody will do something about that; or if the administration is poor, someone will do something about that.'

(Provider)

56. OFT identified existing good practice as well as identifying a number governance gaps, so the introduction of minimum governance standards for all DC trust-based schemes will ensure all scheme members can have confidence that they are saving into schemes which are managed in their best interests. It has not been possible to quantify the long-term benefit for scheme members of improvements in scheme governance. Member outcomes are influenced by a range of factors including the performance of the economy and investment returns. It is therefore difficult to isolate the impact of good governance alone on member outcomes. All other things being equal we would expect a well governed scheme aligned with members' interests would deliver better retirement outcomes for scheme members. There are currently £26.5bn of assets held by DC trust-based schemes with over 12 members²¹, if improved governance led to even a small improvement in investment returns each year, scheme members would be substantially better off over the long-term.
57. Employers will also benefit from good scheme governance, as they will be getting value for money and they can demonstrate to their employees that the schemes they are providing are good which will have benefits for workforce management. The pensions industry may also benefit from these measures through increased consumer confidence in the industry. In addition, the OFT concluded in their study of the DC workplace pensions market that the reference test for a market investigation had been met, but a full market investigation was not required on the basis that government and industry would work together in addressing the weak demand side and safeguarding against consumer detriment. A Competition and Markets Authority market investigation would be costly and disruptive and create wider reputational damage for the pensions industry.
58. These measures will make a direct contribution to the Government's commitment in the mid-term review to ensuring our pensions system is fair and affordable and encouraging people to save for their old age.

Costs of standards for DC trust-based schemes

59. The direct costs for meeting minimum governance standards in DC trust-based schemes will be met either by those employers who have chosen to run a DC trust-based scheme, by the scheme members, or by a combination of the two. In some schemes employers

²¹ The Pensions Regulator (TPR), *DC trust: a presentation of scheme return data 2013-14*. Comparable data for micro schemes excluding small self administered schemes is not available.

may choose to pay a greater share and in other schemes, members may pay a greater share.

60. There was no additional evidence provided via the consultation on who would bear the costs of the new measures. Following further engagement with TPR, it is our understanding that typically costs for meeting governance requirements would be more likely to be met by the employer in an unbundled²² DC trust based scheme and by scheme members in a bundled²³ DC trust-based arrangements. The ratio of DC trust based schemes is 54% unbundled and 46% bundled²⁴. This is therefore broadly consistent with the assumption made in the consultation stage Impact Assessment that across all DC trust-based schemes around half of the costs would be borne by the employer and half by the scheme member. Given this, the assumption that costs fall on the scheme and employer equally i.e. there is a 50/50 split in who bears the costs remains a plausible assumption and is retained at final stage.
61. As costs associated with meeting the new requirements could be borne by the scheme and therefore scheme members, it is possible that members could face an increase in some member-borne charges. However in April 2015 the Government will be introducing a default fund charge cap covering all member-borne charges and deductions excluding transaction costs. It will be set at 0.75 per cent of funds under management. The introduction of the charge cap will mitigate the extent to which costs associated with meeting the new minimum governance standards can be passed on in full to scheme members.
62. The minimum governance standards build upon existing good practice. There is evidence that some of the activities which we intend to legislate for are already happening, but we want to ensure that they are met by all schemes, rather than just by those who have chosen to run their scheme to a high standard. DWP's Default Fund Guidance²⁵ and the TPR Code of Practice for DC trust-based schemes sets out good practice in scheme governance and administration. For example, performance of the funds within the default option should be checked informally at regular intervals throughout the year as well as undergoing a full review at least every three years. The additional costs of new legislative minimum governance requirements will therefore vary depending on the performance of the existing governance functions in DC trust-based schemes. Schemes already complying with existing legislation and operating on the basis of good practice standards will face relatively small increases in costs (relative to the assets they hold), and these will be largely associated with the new requirements to report on how these standards have been met.
63. Although this guidance exists the picture is inconsistent across schemes. In general, we believe that large occupational schemes are most likely to already meet the standards. Results of TPR's Governance Survey and research on key features of running a DC scheme show that larger schemes are more likely to be well run. The TPR Governance Survey finds that governance is considered effective in 78% of large DC schemes, 58% of

²² In an unbundled DC trust based scheme the administration and investments are managed separately by selected third party providers.

²³ In a bundled DC trust based scheme a single third party provider provides both the administration and investment services.

²⁴ The Pensions Regulator (TPR), *DC trust: a presentation of scheme return data 2013-14*

²⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/185056/def-opt-guid.pdf

medium and 30% of small DC schemes²⁶. This was also confirmed by the OFT, who found that governance appears to be working well for many large occupational schemes, or in some cases where employers have put together internal governance panels, but governance gaps have developed that increase the risk that many other scheme members will not get value for money in the long-run.

64. In addition, the baseline is not static. The TPR Governance Survey has shown year-on-year improvements to scheme governance and administration. It has therefore been difficult, for some of the requirements we intend to legislate for, to estimate the additional regulatory burden as a direct result of these measures because of the variability across schemes, the year on year improvements captured in the Governance Survey and the continued winding up of legacy schemes that may not have met the standards.
65. Schemes falling short of existing guidance and good practice will face greater costs to meet the new legislative standards. We believe that smaller schemes are less likely to be meeting good practice guidance, so are more likely to face increased costs in order to meet the new requirements. The level of costs will vary depending on how the scheme is administered and the costs of the advisers, administrators, fund managers and other service providers that the trustees contract with.
66. There are currently £26.5bn of assets in DC trust-based schemes with more than 12 members. Given the size of the assets held by DC trust-based schemes, the proposal to introduce minimum governance standards is proportionate and targeted in line with the Government's Principles of Regulation. In addition, the incidence of the legislation relates to the effective operation of core business, it is focussed on the core activities that we would expect the board of trustees to undertake, and is therefore not excessive.
67. Our assessment of the costs and benefits is set out below. In the case of wholly new requirements, for example to produce a statement in the scheme's audited report covering how the minimum governance standards will be met and the costs associated with appointing independent trustees to mastertrusts, we have been able to quantify the costs in full. In other areas where there is limited data and activity may already be taking place we have made an assessment of the potential scale of the impact and provided our best estimate of costs based upon information provided by industry experts.

The chair must produce a statement in the scheme's audited report and accounts covering how the above governance standards are met (the 'chair's statement').

68. All schemes will face costs in producing a statement attached to the annual audited report and accounts that explains how they have complied with the minimum governance standards. This is a new requirement. The Pensions Regulator has estimated that the additional cost of producing this statement and attaching it to the audited report and accounts, could be anywhere between £350 and £3,250 per scheme per annum, depending on the size of the scheme (see Table 2). In the context of scheme assets these costs are relatively small. An average small scheme (12-99 members) has assets of

²⁶ <http://www.thepensionsregulator.gov.uk/docs/governance-survey-technical-report-2014>

£1.2m, a medium scheme (100-999 members) £8.5m and the average large scheme (1000+ members) £116.1m.²⁷

Table 2: Estimated additional costs of producing an audited report and accounts for DC trust-based schemes in 2013/14 prices

	Number of micro schemes (2-11 members)	Number small schemes (12-99 members)	Number medium schemes (100-999 members)	Number large schemes (1000+ members)	Total
	14,000	1,790	920	380	17,090
Statement costs	£350	£350	£1,700	£3,250	-
Total	£5,110,000	£650,000	£1,570,000	£1,240,000	£8,600,000

Source: The Pensions Regulator's estimate of indicative audited report and accounts costs and DC Trust: a presentation of scheme return data 2013/14 and DWP estimates. Micro scheme figure provided by TPR excludes small self administered schemes. Figures may not sum due to rounding.

69. The overall cost to employers and schemes of fulfilling this requirement could be up to £8.6million per year in 2013/14 prices across over 17,000 schemes (see table 2). This is calculated by multiplying the number of schemes in each size category by the estimated cost. Small self-administered schemes are excluded from the calculations as we do not intend the requirements to apply to this group. In these cases the members are also the trustees so are acting in their own interests so incentives are aligned and legislation is not necessary. There are currently £26.5bn of assets held by DC trust-based schemes with over 12 members therefore the cost per scheme relative to assets held is low, but the volume of schemes particularly micro schemes means that at the aggregate the cost is £8.6m per year. The cost of complying with this requirement is expected to be the same for small and micro schemes. This is because there is a fixed cost element in meeting the requirement that will not vary by scheme size.
70. The estimated cost of this requirement has changed since the previous consultation stage Impact Assessment (IA) for three reasons:
- We are now including micro schemes, at consultation stage we had insufficient information to produce an estimate of micro schemes in scope of the potential legislation. We have received new data from TPR which has enabled us to estimate the number of micros schemes in scope of the legislation²⁸. Micros are included because we want to ensure anyone saving into a DC trust-based scheme can be confident that the scheme is meeting minimum governance standards ; and
 - The requirements for obtaining an audit opinion on the new annual statement have changed since the consultation stage IA. The requirements are now that the statement should be built on existing requirements for schemes to produce an Annual Report. This means that auditors will review the statement but will not be required to give an

²⁷ The Pensions Regulator (TPR), *DC trust: a presentation of scheme return data 2013-14*

²⁸ Of the 35,640 micro schemes, over half (61 per cent) are small self-administered schemes (SSAS) and are not included in these measures. The remaining 14,000 micro DC schemes are non-SSAS and are included in these measures. Source: DC Trust: A presentation of scheme return data TPR, 2013-14; TPR micro scheme data.

opinion on it. This results in lower costs than the requirement captured in the consultation stage IA where auditors were required to consider the statement.

- Following consultation on the previous estimates, the reporting costs represent a wholly new cost for schemes so we are no longer adjusting this estimate for governance activity that may be on-going on a voluntary basis already.

All DC trust-based schemes must have a chair of trustees

71. The majority of consultation responses on the issue of appointing a chair of trustees suggested that many if not most DC trust-based schemes would already have a chair in place.

“The vast majority of such schemes already have a person fulfilling this role, but we would have no issue with formalising this as a requirement”
(Industry representative)

72. We would therefore expect that in most cases this new legal requirement could be met without additional costs to employers and schemes. Most schemes can be expected to already have a chair. For those trustee boards that need to appoint a chair, we would expect that trustee boards would appoint a chair from amongst the existing trustees, and that this would not carry any additional cost. The chair will be responsible for signing the annual statement about how the minimum governance standards have been met. The introduction of a chair of trustees is expected to increase compliance with requirements by introducing personal accountability for the annual report on these requirements (notwithstanding each individual trustee's personal accountability for ensuring legislation is complied with).
73. Data on the number of schemes who have a chair of trustees is limited, as reporting this information to TPR is currently done on a voluntary basis. In future this information will be mandatory for schemes to disclose to TPR and therefore there will be better data available to monitor this new legislative requirement.

The trustee board must have, or have access to, all of the knowledge and competencies necessary to properly run the scheme

74. In our consultation we proposed to introduce a new requirement to the effect that trustees should have, or have access to, all of the knowledge and competencies necessary to properly run their scheme. Many respondents to the consultation questioned how much this would add to existing requirements. In particular, trustees are already required by legislation to have knowledge and understanding of the law relating to pensions and trusts and the principles relating to the funding of occupational schemes and the investment of scheme assets, and are also required to be conversant with their own scheme's policy documents²⁹. TPR provides guidance to help trustees understand these requirements as well as an e-learning product; the 'trustee toolkit'; to help trustees meet the minimum level of knowledge and understanding of the Pensions Act 2004.

²⁹ The Pensions Act 2004, sections 247 – 249 and TPR's Code of Practice 7

75. Reflecting on these consultation responses, we therefore do not intend to introduce the requirement previously proposed, but do intend to introduce a new duty on trustees to annually report on how the trust board itself has, or has access to, all of the knowledge and competencies necessary to properly run the scheme. The existing legislative requirements means that schemes can already be expected to have sufficient knowledge and understanding to run their scheme. The only additional costs of this revised requirement are therefore associated with reporting on how the scheme meets the standard, and these are included in the costs of producing the chair's statement, set out above.

Trustees must assess the levels of charges and costs borne by scheme members and must assess the costs incurred through investment of pension assets

76. Trustees will be required to assess the level of charges borne by scheme members and the costs incurred through investment of pension assets. They will need to provide these details within the chair's annual statement including an explanation where details are unobtainable and how they plan to access information in the future. If trustees identify that members are not getting value for money from their pension scheme then the Board will be responsible for taking appropriate action to ensure the requirements on costs and charges are met. Evidence from The Pensions Regulator Governance Survey 2014 suggests that 8% of trustee boards have poor knowledge of charges deducted from members and 20% have poor knowledge of the schemes Portfolio Turnover Rate indicating that not all trustees are currently likely to be meeting the standard, to assess levels of charges and costs.
77. Where trustees are not currently aware of the charges being borne by their members they will need to find these out. In the case of bundled schemes this should be quite simple as all services are being purchased from a single provider with a bundled charge. Where trustees are purchasing services from a number of different providers this may be more complicated as trustees will need to collate the various charges and work out how they translate into a member-borne charge. Either way, we think it is reasonable to expect trustees to have a clear understanding of the charges being passed on to members of their scheme, and to assess the value of these. We recognise that it may be difficult for trustees to obtain full information about transaction costs from their investment manager/s. Where trustees are not able to access information about these costs they should explain this in their chair's statement, and the steps they will take to address this in future years. We are working with the pensions and investment industries to make this information more obtainable, for example through industry codes of practice.

Default strategies must be designed in the interests of members, with a clear statement of aims, objective and structure and how these are appropriate for their membership. The characteristics and net performance of the funds underlying the default strategy must be regularly reviewed to ensure alignment with the interests of members, and action taken to make any necessary changes

78. Trustees will also be required to ensure that the scheme's default investment strategy is designed in members interests and that the strategy, and performance of underlying funds, are regularly reviewed. The annual chair's statement will have to describe the default's aims, objective and structure and how these are appropriate for the scheme's membership, as well as when it was last reviewed and what action was taken as a result.

"We have long maintained that ensuring the default fund is fit for purpose is imperative as 98% - 100% of members will be auto enrolled into default funds. The structure of these funds will have a significant bearing on members' future retirement income."

(Provider)

Default Strategy designed in members' interest

79. There is evidence that schemes are designing their default arrangement in members' interests to some extent already, but that this is not consistent across all schemes. According to The Pensions Regulator Governance Survey 2013³⁰, 73% of DC schemes say their default arrangement has been established principally based on the profile and risk appetite of scheme members. In 2011, the Government published default option guidance to assist DC schemes in offering a default arrangement. The latest Landscape and Charges Survey found that three-quarters of all trust-based schemes that had reviewed their scheme said they were aware of default option guidance, and two-thirds of those said that they had used this guidance.³¹
80. This is backed up by discussions with industry experts who have suggested that it is likely that designing the default strategy in members' interests and keeping it under review will be 'business as usual' activities for many schemes, and particularly for medium and larger schemes. Experts have advised that small schemes do not typically undertake formal demographic analysis but instead rely on the trustees knowledge of the membership profile. In these cases, the new burden of meeting the standard is likely to be limited to reporting on the default design in the chair's statement, which is covered in the section on the chair's statement.
81. Whilst there is evidence from the TPR and anecdotally from industry experts that the majority of schemes are designing their default strategy in the interests of members there are a minority of schemes who may need to undertake some demographic analysis of their membership profile. We know that 73% of DC schemes say their default arrangement has been established principally based on the profile and risk appetite of scheme members, we have therefore assumed that a maximum of 27% of DC schemes might need to undertake some demographic analysis (around 4,600 schemes, see table 3). Following discussions with firms who typically work with medium and larger schemes we understand that a demographic analysis of the scheme's membership might cost around £1,750 - £2,250. We would expect small schemes (12-99 members) and micro schemes (2-11 members) to pay substantially lower fees for these services as their membership is much smaller. We have estimated that if all these schemes undertook a demographic analysis of their scheme the costs could be around £3.1m in 2013/14 prices. This assumes the cost of a demographic analysis paper is £2,000 for large and medium schemes, £1000 for small schemes and £500 for a micro scheme. This would represent a one off-cost.

³⁰ The Pensions Regulator (TPR), 2013, *A report on the 2013 (seventh) scheme governance survey*, <http://www.thepensionsregulator.gov.uk/docs/governance-survey-technical-report-2013.pdf>

³¹ Landscape and Charges Survey 2013: Charges and quality in defined contribution pension schemes

Table 3: Estimated additional cost of undertaking demographic analysis of the scheme membership in 2013/14 prices

	Micro schemes (2-11 members)	Small schemes (12-99 members)	Medium schemes (100-999)	Large schemes (1000+ members)	Total
	3,780	483	248	103	4,614
Cost of demographic analysis	£500	£1,000	£2,000	£2,000	-
Total	£1,890,000	£483,300	£496,800	£205,200	£3,075,300

Source: DWP estimates

82. We do not have any robust quantitative information on the costs of designing the default strategy in the interests of members. We have spoken to industry sources to understand the additional costs that could be incurred when trustees design their default strategy. These sources have stressed that each trustee client takes an individual approach to running their schemes. Whilst there are standard approaches as a starting point for many items, trustees can choose to deviate from these. The costs of services will differ according to the nature, extent and impact of any bespoking, as well as on scheme characteristics.

Reviewing the default strategy and the performance of the underlying funds

83. We do not currently have evidence about how often schemes review their default strategy or the performance of default funds, but have looked at survey evidence on how often schemes review their Statement of Investment Principles as a proxy. According to The Pensions Regulator's 2014 Governance Survey³², 49% of DC trust-based schemes assessed their Statement of Investment Principle (SIP) at least once in the last three years. This could suggest that around half of DC trust-based schemes already review their default strategy in accordance with the new requirements.
84. Industry experts have advised that the cost of reviewing a default strategy can vary substantially. A review of the default strategy could cost around £1,000 or could be significantly higher – around £10,000 if the trustee wanted a more sophisticated approach such as stochastic analysis of different asset combinations and different types of defaults, but could be higher depending on the size and nature of the scheme. While trustees might choose to pay more for these services because they see it to be in the best interests of their scheme members, this level of analysis will not be required by legislation. If we assume that half of DC trust-based schemes would need to review their default strategy to meet the new requirements based on the TPR Governance Survey (around 8,500 schemes) and this would cost them £1,000 each, the cost of reviewing the default strategy for those schemes who are not already meeting the requirement would be around £8.5m in 2013/14 prices (8,500 schemes multiplied by £1,000 per scheme). We would expect the default strategy to be reviewed once every three years.

³² <http://www.thepensionsregulator.gov.uk/docs/governance-survey-technical-report-2014>

85. Where the standards to design and review default strategies in members' interests are not being met, we think that trustees are most likely to use their existing consultant or adviser to support them in designing and reviewing the default strategy. We do not intend to be prescriptive in regulations about the factors that trustees should take into consideration when designing or reviewing their default strategy, but would expect these to include the level of costs and the risk profile that are appropriate for the scheme's membership. These should be considered in light of the overall objective of the default arrangement strategy, which may vary depending on the needs and demographics of the scheme's membership. There is already practical guidance for trustees about designing and reviewing their default strategy and other investment options in TPR's Code of Practice.
86. Trustees will also be required to review the net performance of the funds underlying the strategy. We do not have robust quantitative evidence on how many schemes already regularly review their fund performance, but have asked experts in the pensions industry how far the review of underlying funds would be a new activity. These industry sources have reported that regular fund monitoring reports are already in place for most DC schemes, and that this is typically done quarterly, semi-annually or annually. This is more than required to meet our new requirement that fund performance should be reviewed at least every three years so this requirement should place no additional burden on the majority of schemes.

Core scheme financial transactions must be processed promptly and accurately

87. It will be a requirement that all core scheme financial transactions must be processed promptly and accurately.
"[We] recognise the importance of accurate administration in ensuring that an individual receives the pension pot due to them. We believe strengthening trustees' legislative responsibilities for ensuring and reporting on how core scheme financial transactions are processed promptly and accurately should ensure accurate administration"
(Provider representative)
88. TPR's Code of Practice 13 already says that trustees should have processes in place to ensure that financial transactions are recorded, so we would expect some schemes to be complying with this requirement – in part or full – already³³. We have also considered evidence from TPR's Governance Survey³⁴ relating to other administrative tasks, as these could indicate how far trustees are also monitoring the processing of core financial transactions. The percentage of DC schemes whose trustees receive regular reports from their administrator (at least annually) is 63% (16% at least quarterly), which is where trustees would generally find information about the standard of administration within their scheme. At a minimum trustees would need to receive such reports annually to be informed as to whether they are meeting their duty in respect of core financial transactions, and ideally have their administrators attend trustee meetings on a regular basis (63% have their administrators attend meetings at least annually, and 26% at every meeting).

³³ <http://www.thepensionsregulator.gov.uk/docs/code-13.pdf>

³⁴ <http://www.thepensionsregulator.gov.uk/docs/governance-survey-technical-report-2014>

89. Where schemes do not already meet this standard, they will need to work with their administrator to obtain information about how transactions are processed, and to take action where there are any problems. TPR's Governance Survey indicates that the vast majority, around 81% of DC trust-based schemes use an external administrator³⁵ and that the majority of services required to carry out the core financial transactions are included in administrative contracts.
90. An administration survey from Kim Gubler Consulting Ltd³⁶ in 2013 asked administration firms to provide their fees based on tasks that would normally be considered to be 'core' to administering a scheme. The survey then asked whether they offer all of these core services to schemes of all sizes. The list of core tasks included provision of regular management information statistics to trustees of scheme activity; dealing with transfers and dealing with DWP requirements. For all scheme sizes the majority of firms offered 90% or more of the core tasks.
91. Where schemes are required to make changes to their administration contracts in order to meet the new requirements, the impact of this will vary depending on what is covered in their existing contract and the cost of the administrator the trustees have chosen to contract with.

Minimum of three trustees, of which two must be independent of the scheme's providers. Fixed appointment terms for mastertrusts

92. Mastertrusts will need to meet some specific requirements in addition to those listed above. Mastertrusts will be required to have a minimum of three trustees, of which two must be independent of the scheme's providers. There must also be arrangements in place for representation of members' interests. These requirements may require some mastertrusts to recruit new members.

"We have long been supportive of better regulation of master trusts to ensure their governance is fully independent and aligned with member interests."

(Industry representative)

93. This is a change to the standard we consulted on, which would have required mastertrusts to have a minimum of seven trustees, and reflects feedback from industry that the higher minimum number would have introduced additional burden without necessarily being in members' interests.
94. Desk-based research³⁷ indicates that around 15% of existing mastertrusts already meet the requirements for the minimum of three trustees, of which two are independent. We therefore don't expect these schemes to incur additional costs. Of the remaining 85% of mastertrust schemes - engagement with industry indicates the majority of mastertrusts will already have at least one trustee who is independent of providers to the scheme. Hence

³⁵ External administrator refers to a scheme insurer or a third-party administrator

³⁶ <http://www.kimgublerconsulting.co.uk/wp-content/uploads/KGC-Fourth-Administration-Fee-Survey-Published-Report-Final2.pdf>

³⁷ Using The Pensions Regulators record of 59 open, closed and winding-up mastertrusts; information on who is meeting the minimum trustee requirements was collected from websites and engagement with industry.

we expect that the majority of schemes not meeting the requirements will need to appoint a second trustee who is independent. Of the c.60 mastertrusts³⁸ recorded by TPR we therefore expect around 50 mastertrusts will be required to recruit one additional trustee who is independent.

95. Where schemes have to recruit additional trustees who are independent, there will be additional recruitment costs and additional ongoing salary costs. The estimated salary costs of each additional trustee who is independent, on the basis of 30 days, is £20,000 to £25,000 per annum³⁹. Based on the assumption that 50 mastertrusts will have to recruit one additional trustee who is independent, we therefore estimate that the additional annual running costs of meeting this minimum requirement would be around £1.0 million to £1.3 million. Our best estimate is the mid-point £1.1m. These costs are lower than if we had proceeded with our original proposal of requiring seven trustees.
96. The minimum standard will require mastertrusts to use an open and transparent recruitment process to recruit new trustees who are independent. We have sought intelligence from the pensions industry about the costs of recruiting trustees who are independent. Where schemes have used a recruitment agency to recruit trustees, they report this costing around £25,000. Other respondents reported that they undertake recruitment themselves and see it as a business as usual activity with no additional costs associated.
97. We do not have sufficient information on the methods which will be employed to recruit an independent trustee for all c.50 mastertrusts. Legislation will not require schemes to use a recruitment agency and we therefore expect that some schemes will seek to reduce costs by using other methods of recruitment. For example, a scheme might instead choose to place an advert in a national newspaper and online. Taking into account the costs of staff time, we think this approach would cost around £8,000⁴⁰. While it would be possible to recruit for less than this amount, we think that this represents a reasonable assumption of the costs for a basic recruitment exercise, of the nature that would meet the legislation. We estimate that the total cost for recruiting an additional independent trustee for all 50 mastertrusts would be around £410,000 in 2013/14 prices every 5 years.
98. Depending on the number of trustees in these schemes, some will also need to appoint a third trustee. Mastertrusts could choose for the third trustee to also be independent of the provider's of the scheme however this is not a legislative requirement and we therefore expect that the scheme will opt to minimise their costs and appoint the third mandatory trustee from the scheme's providers. We expect the associated costs to be significantly lower in relation to hiring a trustee who is not independent as this individual can be an existing employee of a the scheme's provider – any costs would therefore relate to the time spent away from their existing role and on trustee activities. The cost will vary depending on the salary of the person who is appointed as trustee. The average salary of a chief executive or senior official is typical of the sort of person who might be appointed

³⁸ The Pensions Regulator has a record of 59 open, closed and winding-up mastertrusts

³⁹ This assumption is drawn from the amount paid to trustee members at NEST

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/246533/0494.pdf

⁴⁰ c£8,000 breaks down into c.£5,000 - £6,000 advertising costs and 20 days of staff time at a total of £2,650, based on average Human Resources salary of £43,211 for HR managers and Directors (10 days) and £25,676 for HR officers (10 days) from the Annual Survey of Hours and Earnings 2013.

to this role. Taking an average salary of £84,453⁴¹ and assuming that the trustee role will take 30 days a year, suggests a cost of £9,745.

99. We do not have sufficient information to know how many of the c.50 mastertrust schemes that will have to recruit one additional trustee will also have to recruit a second. Taking the mid-point of 25 schemes, this would suggest an additional annual cost of around £240,000 in 2013/14 prices (based on a cost of £9,745 multiplied by the 25 mastertrusts).
100. Mastertrusts trustees must be appointed for fixed terms of no longer than 5 years, or a cumulative maximum of 10 years (unless they are a professional trustee firm in which case the 10 year maximum does not apply). Where schemes do not already appoint trustees on this frequency, this will lead to some additional recruitment costs for mastertrusts. However, we do not have sufficient information about how frequently trustees are currently appointed, to understand this impact. This is particularly the case because of the number of significant mastertrusts that have only been established within the last 10 years.

Small and Micro Business Assessment

Impact on small and micro pension schemes

101. The trust-based pensions sector contains a long-tail of small and micro pension schemes. Such schemes account for around 92% of schemes in the workplace pensions market (see table 2), but a small minority of scheme members. Of the 2.7million individuals saving into an occupation DC scheme around 44,000 (or 2%) are in small or micro pension schemes – excluding small self-administered schemes⁴². The Office of Fair Trading's market study expressed concern about the risk of member detriment in small trust-based schemes, due to poor governance, and some responses to the DWP consultation on charges suggested the Government should intervene to promote the consolidation of small pension schemes. Currently non-compliance with the minimum standards is more likely amongst small and micro schemes e.g. 24% of small schemes compared to 10% of large schemes are unaware of TPR's publication on the 'Six principles for good workplace DC'⁴³ this adds to the case that intervention for small schemes is required.
102. There are benefits of scale in workplace pension provision and consolidation of schemes has been occurring in recent years. 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.
103. In the Better Workplace Pensions Command Paper of March 2014, the Government accepted the arguments around the value of scale, but did not accept the case for forcing small pension schemes to merge. This conclusion was reached on the grounds that consolidation is occurring naturally, with very few new small schemes being set up, and

⁴¹ ONS, Annual Survey of Hours and Earnings, 2013

⁴² Source: DC Trust: A presentation of scheme return data TPR, 2013-14; TPR micro scheme data and additional data from TPR on membership of micro schemes excluding small self-administered schemes.

⁴³ <http://www.thepensionsregulator.gov.uk/docs/governance-survey-technical-report-2013.pdf>. Information for micro schemes is not available.

that some small pension schemes are well governed in members' interests. At no point during the DWP's Call for Evidence and recent DWP consultation, or the OFT report, has there been a suggestion from government or stakeholders that small pension schemes should be exempt from the minimum standards. There is a very clear consensus that all pension scheme members should be enrolled into well governed schemes, regardless of its size.

104. There have been calls from some industry commentators (seen in Opposition amendments to the Pensions Act 2014 when it was being considered by Parliament) for the Government to legislate to force small schemes to merge. The Government has resisted these calls as disproportionate, particularly as there are costs involved with merging schemes which means this will not necessarily be in members' interests, and given that consolidation is occurring already.
105. We expect that schemes will already be complying with varying degrees with the required minimum governance standards in DC trust-based schemes as some quality requirements for DC trust-based schemes are already set out in legislation and supported by a TPR Code of Practice. Schemes who are not complying with existing legislation and good practice will be required to make changes to meet the new minimum governance standards. In addition all DC trust-based schemes will need to produce a statement in the scheme's audited report and accounts covering how the governance standards have been met. The costs associated with this are set out in paragraphs 58-60. Given trustees have a duty to act in members' interests, the lack of member choice about the scheme their employer chooses on their behalf, and the structural change in the DC workplace pensions market as a result of automatic enrolment, we think that it is proportionate to legislate to ensure minimum governance standards for all DC -trust based schemes. Anyone who is automatically enrolled into a DC trust-based scheme should have confidence that they are in a well governed, low cost, value for money scheme.
106. Small, self administered schemes will be exempted from the new requirements, because in these cases the members of the schemes are trustees, so are administering the pension savings on their own behalves so incentives are aligned and they are acting in their own best interest.
107. The decision to introduce a light touch approach requirement for the new annual statement will result in lower costs to schemes than those we originally consulted on (as set out at paragraph 60 – second bullet). For small schemes, our consultation stage IA assumed that our proposals would introduce additional audit costs of £640 per scheme. In this IA we have reduced our assumption to £350. This is because schemes will no longer be required to obtain an auditor's opinion on their annual statement (see impact analysis at paragraph 59).

Impact on small and micro employers

108. Around 40%⁴⁴ of employees work for small and micro employers. Employers of all sizes have a choice about whether to establish their own DC trust scheme, or use a contract-based scheme or mastertrust for their employees. We expect the majority of small and

⁴⁴ Business Population Estimates 2013, Department of Business Innovation and Skills

micro employers who do not currently have a scheme to use a mastertrust or contract-based scheme for automatic enrolment, rather than establishing their own DC trust-based scheme. DWP research states that around 65% of small and medium employers (with less than 250 workers) are expected to use National Employment Savings Trust (NEST)⁴⁵ to automatically enrol at least some of their workers⁴⁶. The Pensions Regulator has published guidance saying that most employers would find that it is not cost effective to set up their own DC trust-based scheme unless it has at least 1,000 people saving in it.

109. Where a small or micro employer has chosen to operate a single employer DC trust-based scheme for their employees, then the scheme will be required to meet the new requirements. Employers sometimes contribute to the costs of operating their occupational scheme, and may therefore contribute to the costs of meeting the new requirements, but the extent of this varies across employers. For the purposes of this Impact Assessment we have assumed that new costs associated with meeting these new legislative requirements will be split equally, with the employer meeting half of the new costs and the scheme meeting the other half. Employers could however choose for all new costs to be met solely by the scheme or vice versa. There was no additional evidence provided via the consultation on who would bear the costs, following further engagement with TPR on who bears the cost in unbundled and bundled DC trust arrangements (paragraph 52) our assumption is that costs fall on the scheme and employer equally.

Impact on other small businesses

110. At the pension provider level, the market is already very concentrated, with a relatively small number of organisations dominating the market – statistics released by the ABI in 2010 found that five companies accounted for two-thirds of all insurer-administered pension funds.⁴⁷ Furthermore, those who choose to stop offering schemes to smaller employers will still be able to provide schemes to larger, more profitable employers. The roll-out of automatic enrolment means that the DC workplace pensions market is growing rapidly with a huge increase in funds flowing through the industry.
111. There is no correlation between small pension schemes and small pension providers. Information from The Pensions Regulator shows that although there are some 1,790 small DC trust-based schemes (12-99 members), over two-thirds are operated by just 10 of the largest providers, accounting for over 65 per cent of the total small scheme membership. Pension providers are either insurance companies or mastertrusts and, in 2013, held assets for small schemes valued at almost £1.8billion.

Risks and assumptions

112. We have used the available information provided by industry, the TPR, survey data and through the consultation, to provide our best estimates of the costs of these measures. Some governance requirements for DC trust-based schemes are already set out in legislation and supported by a TPR Code of Practice. The additional costs, associated with meeting some of the new legislative requirements will vary depending on the extent to

⁴⁵ NEST is a qualifying pension scheme open to all UK employer's; established by law to support the introduction of automatic enrolment.

⁴⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209864/ad-hoc-supporting-ae-further-analysis.pdf

⁴⁷ <https://www.abi.org.uk/Insurance-and-savings/Industry-data/~/media/0131EC5ECD4F4ECCA9F2E154C9C55314.ashx>

which existing legislation and good practice is being met. Information on the costs associated with undertaking governance and administration activities is not readily available. Costs for these activities are likely to vary by scheme size, but also by the type of scheme (mastertrust, unbundled or bundled) and the preferences of the scheme. The estimates presented in this final stage Impact Assessment represent our best estimates given the data constraints that we have faced.

Overall Net Present Value (NPV) of the introduction of minimum governance standards

113. The introduction of minimum governance standards in DC trust-based schemes has the potential to benefit large numbers of savers helping to deliver value for money and improving retirement outcomes. However is not possible to quantify the long-run benefits of these proposals to individuals for the reasons set out in paragraph 56. As we are unable to estimate the benefits, the total net present value is not quantified.
114. We estimate that the net present value of the cost is -£111.5 million (best estimate) in 2013/14 prices, over a ten year period beginning in 2015/16 (see table 4). This is calculated by combining the estimates for:
 - the chair's statement;
 - meeting the additional requirements for mastertusts; and
 - reviewing the default strategy every 3 years and undertaking a demographic analysis of membership if necessary.

Table 4: Present value of estimated costs £m

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Chair's statement	8.6	8.3	8.0	7.7	7.5	7.2	7.0	6.7	6.5	6.3	73.8
Demographic Analysis	3.1										3.1
Reviewing the default strategy	0.0	0.0	8.0	0.0	0.0	7.2	0.0	0.0	6.5	0.0	21.7
Mastertrust trustee salaries	1.4	1.3	1.3	1.2	1.2	1.2	1.1	1.1	1.0	1.0	11.8
Mastertrust recruitment costs	0.4	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.3	1.1
Total	13.4	9.6	17.3	9.0	9.0	15.6	8.1	7.8	14.0	7.6	111.5

Source: DWP estimates
Totals may not sum due to rounding

115. The chair's statement is an annual cost so appears in every year. The demographic analysis is assumed to be a one off cost occurring in 2015/16 (the year the new minimum governance standards are introduced). The estimate is based on the proportion of schemes who might need to undertake some demographic analysis of their membership using evidence from the TPR Governance Survey (see paragraph 81). Based on evidence from the TPR Governance Survey on the proportion of schemes who regularly review their SIP, we have assumed that reviewing the default strategy will be a new activity for half of schemes (see paragraph 84). We have made the assumption that they

will need to do it every 3 years, so the costs occur in 2017/18, 2020/21 and 2023/24. The additional trustee salaries for mastertrusts are an annual cost so appear in every year. The mastertrust recruitment costs occur every 5 years. We have assumed that mastertrusts will need to recruit and appoint additional trustees in 2015/16, then we assume that the trustees stay in place for 5 years and that future recruitment exercises start in the final year of the term of appointment so that the new trustees are ready to start at the beginning of the new term. Recruitment exercises are assumed to take place in 2015/16, 2019/20 and 2024/25.

116. Based on the evidence presented by the OFT in their DC market study, introducing minimum governance requirements in DC trust-based schemes seems the only reliable way of achieving the Department's objective of ensuring that all individuals saving into a workplace pension get value for money (alongside the standards for DC contract-based schemes introduced by the FCA).

Direct cost to business of the preferred option

117. As outlined in the Impact Assessment, the costs associated with the Government's proposals for DC trust-based schemes will be met by employers who have chosen to run an occupational scheme, by the scheme members, or by a combination of the two. For the purposes of calculating the impact on business, we have assumed that the cost is split equally between scheme members and the employer (see paragraph 60).
118. Based on our estimates, the business net present value is -£55.7 million and the equivalent net cost to business of the Government's preferred option, over the default period of 10 years recommended in the Better Regulation Framework Manual, is estimated at £5.05million.

Monitoring and Implementation Plan

119. This Impact Assessment accompanies the Government response to the Better Workplace Pensions consultation, which provides policy clarity over the minimum governance standards and includes a technical consultation on draft regulations.
120. Subject to Parliamentary approval, the regulations for DC trust-based schemes will come into force in April 2015.
121. TPR will monitor compliance with the new requirements through a risk-based approach, including scheme governance and record keeping surveys; thematic reviews; and engagement with schemes through case work following whistle-blowing reports or proactive engagement activity. Some mastertrusts will also engage with the mastertrust assurance framework which will also provide an indication of the strength of governance within these schemes.