

Defined Contribution Code of Practice Update

The Pensions Regulator (TPR)

RPC rating: validated

As a result of the regulator's response to the RPC's initial review notice, the BIT assessment has now been validated. As first submitted, the assessment was not fit for purpose.

Description of proposal

In response to legislative changes, TPR has updated its November 2013 Defined Contribution (DC) code of practice to reflect new legal duties imposed on trustees concerning the governance of certain occupational trust based schemes offering some form of money purchase benefits. Codes of practice are not a statement of law and there are no direct penalties for non-compliance.

Impacts of proposal

The code applies to trustee boards of all occupational trust-based pension schemes with two or more members that offer money purchased schemes. There were approximately 35,000 schemes offering DC benefits in the UK in March 2016; trustees can be involved with more than one scheme and, based on administrative data, the regulator estimates that the code will be relevant to 16,535 trustees of micro schemes (which have fewer than 12 members) and to 2,239 trustees of non-micro schemes.

Familiarisation costs

The regulator assumes that trustees will familiarise themselves with the code at the time when they are required to report to the regulator on their legal duties. This occurs every three years for micros, and annually for other schemes. The regulator has, therefore, assumed that, in the first year, one third of trustees for micro schemes will need to familiarise themselves with both the previous code and the new code and all trustees for non-micro schemes will need to do so. The total initial familiarisation cost is, therefore, estimated at £258,000.

After year 1, the regulator assumes that trustees will familiarise themselves with the new code instead of the previous code. On the basis that the previous code was estimated to take 83 minutes to read, compared with 62 minutes for the new code, the measure is estimated to result in an annual saving of £87,000.

Overall, this is estimated to produce an annual net direct cost to business (EANDCB) of -£45,000 000 (i.e. a net benefit).

Additional benefits

The regulator has assessed a number of potential benefits from the code, including less need for paid advice or external training and improved understanding among trustees. These benefits have not been quantified for the purpose of this assessment as the financial value of these benefits is difficult to measure.

Quality of submission

The RPC considers the assessment to be fit for purpose for business impact target purposes. The issues raised by the RPC, in its initial review notice, have been addressed adequately in the revised submission.

The RPC noted in the IRN that “the regulator states that as micro schemes report on a 3-year cycle, only one third of micro businesses would familiarise themselves with the revised code in the first year... but the regulator is unclear about when the other two thirds of micro schemes would be expected to familiarise themselves with the guidance, or whether these costs have been accounted for”.

The regulator has clarified in the resubmission that it has made the assumption that the previous code will only be read as normal in the first year, alongside the new code, increasing familiarisation costs for those firms. After the first year, only the new code will be read, and business will make a saving compared with reading the old code. The RPC is content with this assumption.

The RPC also noted that the numbers for EANDCB, Business Net Present Value and BIT Scores had been entered incorrectly in the summary box. The regulator has corrected this in their resubmission.

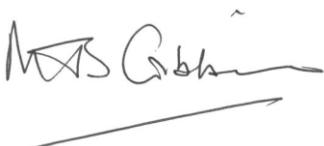
The RPC is content that the evidence is sufficient and proportionate to justify an EANDCB of zero (rounded).

Departmental assessment

Classification	Not Provided
Equivalent annual net cost to business (EANCB)	-£44,815
Business net present value	£406,508

RPC assessment

Classification	Qualifying regulatory provision
EANCB – RPC validated ¹	Zero



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.