EXPLANATORY MEMORANDUM TO

THE OCCUPATIONAL AND PERSONAL PENSION SCHEMES (DISCLOSURE OF INFORMATION) (STATEMENTS OF BENEFITS: MONEY PURCHASE BENEFITS) (AMENDMENT) REGULATIONS 2021

2021 No. 1150

1. Introduction

1.1 This explanatory memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 This instrument makes amendments to the regulations governing the disclosure requirements for occupational pension schemes and personal pension schemes. The amendments place a new requirement on trustees or scheme managers of certain occupational and personal pension schemes offering money purchase benefits (defined contribution (DC) pension schemes) and which are used for automatic enrolment to provide that a statement given to certain members informing them of their pension savings must not exceed one double-sided sheet of A4-sized paper when printed, and the equivalent if printed from an online statement. This is to enable members in automatic enrolment schemes to better engage with their pension savings through a short, simple document which can help increase their awareness and understanding of their pension savings.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Extent and Territorial Application

4.1 The territorial extent of this instrument is Great Britain.

4.2 The territorial application of this instrument is Great Britain.

4.3 It is anticipated that the Department for Communities will be making corresponding legislation for Northern Ireland.

5. European Convention on Human Rights

5.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation no statement is required.

6. Legislative Context

6.1 Section 113 of the Pension Schemes Act 1993[1] authorises the Secretary of State to make regulations requiring the disclosure of information to keep specified persons

[1] https://www.legislation.gov.uk/ukpga/1993/48/section/113/enacted

informed of, amongst other things, the pension and other benefits they are likely to accrue or secure in respect of their rights under a scheme.

6.2 The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (S.I. 2013/2734) ("the Disclosure Regulations") impose requirements on trustees or scheme managers of occupational pension schemes and personal pension schemes to provide scheme members with information relating to their pension savings.

6.3 The provisions of regulation 17 of, and Schedule 6 to, the Disclosure Regulations sets out the information that must be given to members by schemes in relation to money purchase benefits. This information includes the amount of contributions credited to the member, the value of the member's accrued rights, an illustration of the amount of the pension that is likely to accrue to the member at their retirement date and statements relating to the illustration. Regulation 2 of this instrument amends regulation 17 of the Disclosure Regulations to require that a statement informing members of their pension savings, which is given to certain members by trustees or scheme managers of certain pension schemes providing only money purchase benefits used for automatic enrolment ("automatic enrolment schemes"), must not exceed 2 sides of one sheet of A4 paper, and the equivalent if printed from an online statement.

6.4 The definition of "money purchase benefits" is set out in sections 181 and 181B of the Pension Schemes Act 19932 as amended by section 29 of the Pensions Act 20113 and section 6 of the Pension Schemes Act 20214. In broad terms, "money purchase benefits" are benefits where the member's pension is solely based on their contribution and investment return, less costs and charges.

6.5 Section 38 of the Pension Schemes Act 2015[5] amends section 113 of the Pension Schemes Act 1993 to provide that, in complying with regulations made under section 113, a person may be required to have regard to any guidance which is prepared from time to time by the Secretary of State.

7. Policy background

What is being done and why?

7.1 This instrument will make better use of an existing regulatory requirement by ensuring that annual pension benefit statements for pension savers in certain defined contribution (DC) pension schemes used for automatic enrolment ("automatic enrolment schemes") receive short, simple statements that enable them to better engage with their pension saving.

7.2 The 2017 Review of Automatic Enrolment: Maintaining the Momentum[6] looked at how engagement with workplace pension saving can be improved so that pension savers have a stronger sense of personal ownership of their workplace pension. The success of automatic enrolment has increased the number of people saving into workplace pensions, with a large portion of this number saving into defined contribution (DC) pension schemes. Many will be first time pension savers. To enable members to more easily engage with and understand the level of their savings, it is

[2] https://www.legislation.gov.uk/ukpga/1993/48/contents/enacted
[3] https://www.legislation.gov.uk/ukpga/2011/19/section/29
[4] https://www.legislation.gov.uk/ukpga/2021/1/section/6
[5] https://www.legislation.gov.uk/ukpga/2015/8/section/38
[6] https://www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum

important that key information is presented using language that is clear and easily understood, so that it accommodates all levels of financial literacy.

7.3 The Review recognised that whilst no single intervention will lead to stronger personal engagement a more effective range of engagement tools and interventions can have a cumulative impact, including annual workplace pension benefit statements.

7.4 Short, simpler statements for certain DC pension schemes used for automatic enrolment are intended to help increase pension savers' awareness and understanding of their pension information and their estimated retirement income; build a greater sense of individual control and ownership of their pension savings as a whole; and support better retirement planning and decision making by individuals in the accumulation (saving) stage. They will enable a member to see: how much money the member has in their pension plan and what has been saved in the statement year; how much money they could have when they retire; and what they could do to give themselves more money at retirement.

Explanations

7.5 The Disclosure Regulations impose a duty on trustees or scheme managers of certain occupational and personal pension schemes offering money purchase benefits to provide certain scheme members with annual benefit statements relating to their pension savings.

7.6 The Disclosure Regulations do not prescribe the length of statements, which means that annual benefit statements are of variable length and may be overly long, complex, full of jargon and inconsistent, acting as a barrier to members' engagement with key information about their pension saving. DC pension scheme providers have failed to move voluntarily to shorter, less complex statements despite there being a freely available 2-page template, created by an ad hoc industry group since 2017.

The Disclosure Regulations will be amended to require that trustees or scheme managers of certain DC pension schemes used for automatic enrolment must provide their members, except those members who are drawing down (or have drawn down) a portion of their pension savings, with a statement in relation to those savings that must not exceed one double-sided sheet of A4-sized paper when printed (with an exception where the trustees or scheme managers determine they are required to give the information in an alternative format). This instrument will come into effect on 1 October 2022.

8. European Union Withdrawal and Future Relationship

8.1 This instrument does not relate to withdrawal from the European Union / trigger the statement requirements under the European Union (Withdrawal) Act 2018.

9. Consolidation

9.1 Informal consolidated text of instruments is available to the public free of charge via the National Archives website: www.legislation.gov.uk

10. Consultation outcome

10.1 The Government publicly consulted between 1 November and 20 December 2019 on how annual workplace pension benefit statements given to members by pension schemes which provide money purchase benefits could be reformed and made

simpler, shorter and more consistent, so that they support better engagement with their workplace pension savings by members[7]. The consultation looked for views on three options for delivering short, simple statements: a set of design principles; a set of descriptors; and a two-page template (using a document originally created by an ad hoc industry group as a starting point) - and whether they should be voluntary or mandated. The consultation also asked whether the scope for short, simple, statements should be extended to other types of scheme. 65 responses were received, with support shown for enabling members to better engage with their pension saving, but no consensus of opinion on the options presented; on whether there should be a voluntary or mandated approach nor on the scope of the approach.

10.2 On 19 October 2020 the Government published its response[8] to that consultation and set out the intention to mandate an approach to simpler statements for DC pension schemes used for automatic enrolment in the first instance and which would take the two-page template set out in the 2019 consultation as the starting point. During January to February 2021 the Government held discussions with a number of stakeholders on the costs and benefits to assist in the preparation of the impact assessment to support a regulatory consultation.

10.3 The Government then conducted a further public consultation between 17 May and 29 June 2021[9] on draft regulations and statutory guidance (which includes an illustrative two-page statement template based on the statement used in the 2019 consultation). 40 responses were received from a variety of stakeholders including pension schemes, consumer groups, pension industry professionals. DWP worked with the Pensions Regulator and Financial Conduct Authority to consider the issues raised. The majority of responses welcomed simpler statements with the bulk of the comments made seeking technical clarification of the draft regulations, statutory guidance and two-page illustrative template. The regulations have been amended to make clearer that they apply to defined contribution schemes used for automatic enrolment, and that trustees or scheme managers must have regard to the statutory guidance. The statutory guidance and illustrative statement have been amended to provide clarification of technical details raised, as appropriate. The Government has been mindful of the comments made around the proposed coming into force date of 6 April 2022, and concerns expressed that some schemes need longer to prepare, and has therefore changed the coming into force date to 1 October 2022.

11. Guidance

11.1 In complying with the amendments made to the Disclosure Regulations, this instrument requires the trustees or scheme managers to have regard to guidance published from time to time by the Secretary of State to comply with the annual benefit statement format.

11.2 The statutory guidance “Simpler Annual Benefit Statements” is published on Gov.uk and will be reviewed as a minimum every 5 years, from the date of publication. It explains to trustees or scheme managers how to satisfy the Disclosure Regulations with regard to the content and layout of the annual benefits statement (as required under new regulation 17(11) of the Disclosure Regulations).

[7] https://www.gov.uk/government/consultations/simpler-annual-benefit-statements-for-workplace-pensions
[8] https://www.gov.uk/government/consultations/simpler-annual-benefit-statements-for-workplace-pensions
[9] https://www.gov.uk/government/consultations/simpler-annual-benefit-statements-draft-regulations-and-statutory-guidance

12. Impact

12.1 The impact on business, charities and voluntary bodies will apply to trustees or managers of certain workplace pension schemes which provide money purchase benefits and which are used for automatic enrolment. There will be significant and on-going benefits to businesses from the savings on on-going costs of print, production, postage and user testing for their annual statements. DWP has estimated that the costs of the policy would occur in the transition period and would largely be faced by the estimated 50 larger pension scheme providers with DC pension schemes used for automatic enrolment. These have an estimated average transition cost per provider of £674,208 and a total cost of £33.7million. For the 489 smaller pension scheme providers (with less than 5000 members), we have estimated an average upfront transition cost per provider of £25,000 and a total cost of £12.2million.

12.2 There is no, or no significant, impact on the public sector.

12.3 An Impact Assessment is submitted with this memorandum and is published alongside the Explanatory Memorandum on the legislation.gov.uk website.

13. Regulating small business

13.1 The legislation applies to activities that are undertaken by small businesses.

13.2 These requirements apply to certain defined contribution (DC) pension schemes used for automatic enrolment, (including smaller DC pension schemes used for automatic enrolment) and not employers. The impact on smaller DC pension schemes in scope is included in the Impact Assessment.

14. Monitoring & review

14.1 A review provision has been included in this instrument. Regulation 3 requires the Secretary of State to review the operation and effect of the amendments to regulation 17 of the Disclosure Regulations made by regulation 2 of this instrument and publish a report before 1 October 2027 and within every 5 years after that.

15. Contact

15.1 Doris Zajer at the Department for Work and Pensions e-mail: automatic.enrolmentpolicyteam@dwp.gov.uk can answer any queries regarding the instrument.

15.2 Jo Gibson, Deputy Director for Automatic Enrolment, at the Department for Work and Pensions can confirm this Explanatory Memorandum meets the required standard.

15.3 Guy Opperman MP, Minister for Pensions and Financial Inclusion at the Department for Work and Pensions can confirm that this Explanatory Memorandum meets the required standard.