EXPLANATORY MEMORANDUM TO

THE OCCUPATIONAL AND PERSONAL PENSION SCHEMES (DISCLOSURE OF INFORMATION) (STATEMENTS OF BENEFITS: MONEY PURCHASE BENEFITS) (AMENDMENT) REGULATIONS (NORTHERN IRELAND) 2022

S.R. 2022 No. 208

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Communities to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.

1.2 The Statutory Rule is made under sections 109(1), (2A) and (3), 177(2) to (4) and 178(1) of the Pension Schemes (Northern Ireland) Act 1993 and is subject to the negative resolution procedure.

2. Purpose

2.1 These Regulations amend the existing regulations governing the disclosure requirements for occupational pension schemes and personal pension schemes. They place a 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. Background

3.1 The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014 ("the 2014 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.

3.2 Regulation 17 of, and Schedule 6 to, the 2014 Regulations set 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.

3.3 These Regulations amend regulation 17 of the 2014 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 must not exceed one double-sided sheet of A4-sized paper, and the equivalent if printed from an online statement.

3.4 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.

3.5 These Regulations also require trustees or managers to have regard to guidance published from time to time by the Department on the layout and content of the statement.

4. Consultation

4.1 There is no requirement to consult on these Regulations. They make in relation to Northern Ireland only provision corresponding to provision contained in regulations made by the Secretary of State for Work and Pensions in relation to Great Britain.

5. Equality Impact

5.1 In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on the legislative proposals for these Regulations. The Department has concluded that they would not have significant implications for equality of opportunity and considers that an Equality Impact Assessment is not necessary.

6. Regulatory Impact

6.1 A Regulatory Impact Assessment is attached in the Annex to this Explanatory Memorandum.

7. Financial Implications

7.1 None for the Department.

8. Section 24 of the Northern Ireland Act 1998

8.1 The Department is content that these Regulations comply with section 24 of the Northern Ireland Act 1998 (Convention rights, etc.).

9. EU Implications

9.1 Not applicable.

10. Parity or Replicatory Measure

10.1 The Great Britain Instrument is the Occupational and Personal Pension Schemes (Disclosure of Information) (Statements of Benefits: Money Purchase Benefits) (Amendment) Regulations 2021 (S.I. 2021/1150) which comes into force on 1st October 2022. Parity of timing and substance is an integral part of the maintenance of single systems of social security, child support and pensions in line with section 87 of the Northern Ireland Act 1998.

REGULATORY IMPACT ASSESSMENT

The Occupational and Personal Pension Schemes (Disclosure of Information) (Statements of Benefits: Money Purchase Benefits) (Amendment) Regulations (Northern Ireland) 2022

The costs and savings outlined in this Regulatory Impact Assessment are calculated on a UK-wide basis.

Evidence Base

Problem under consideration

1. During working age, the majority of individuals will:

    - build up entitlement to the new State Pension;
    - accumulate private pension wealth through workplace pensions arranged by the employers they work for; and
    - may have additional saving through personal pensions (or other forms of wealth).

2. In order to plan for retirement, individuals need to make a number of decisions, including:

    - how much to save for the retirement they want, and potentially decisions about investment strategy etc.;
    - when to retire;
    - when to claim their State Pension; and
    - when, and how to access their wealth to provide retirement income.

3. These decisions are very long term, can be complex, and involve significant uncertainty (particularly given longevity risk, inflation risk, and investment risk). In making these decisions individuals have incomplete information and a number of behavioural biases may lead to sub-optimal decisions (typically not saving enough for retirement, or being under/over optimistic about risk which leads to sub-optimal use of wealth in retirement). This is not a new problem, but there are two important factors which increase the potential risk to individual retirement incomes:

    a) As a result of automatic enrolment (AE), over 10 million additional individuals[1] have been automatically enrolled into a workplace pension, typically into a Defined Contribution (DC) scheme where the employer pays a contribution but the individual bears the risk (e.g. of receiving a poor return on savings). This significant growth in the number of DC members follows a longer-term shift away

[1] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis

from Defined Benefit (DB) schemes (where the risk is borne by the employer). As individuals move through the labour market, they may build up multiple private pension pots depending on how many jobs they have over their lifetime. Therefore, in the future more individuals will have a greater number of DC pensions contributing to their overall pension pot.

b) The pension freedoms introduced in 2015 mean that individuals with a DC pension pot are now responsible for decisions over how to use their pension wealth from the age of 55. This gives individuals much greater freedom and choice, but requires them to take more complex decisions than previously would have been the case when they typically would have used their pension pot to buy an annuity. Since more individuals will have DC pots in the future, this means that more individuals will need to make complex decisions about how to access their pension wealth.

4. Under the current pensions landscape all DC members and some (active, public sector) DB members should receive a paper Annual Benefits Statement (ABS) for each individual membership. This is the key regular update they will receive about their workplace pension saving (note that members may opt to receive the statement digitally).

5. Research shows the difficulty individuals have with accessing and understanding information on their pension savings. The Financial Conduct Authority's (FCA) Financial Advice Market Review[2] finds that people often find it difficult to access their data from financial institutions. Pensions Dashboard research also highlighted that many individuals have low understanding of their own pension information[3].

6. The consequence of this is low levels of knowledge, engagement, and feelings of ownership with pension savings, as evidenced in the Pensions Dashboard research. This creates risks of individuals making poor decisions in both the accumulation (saving) and decumulation (consumption) stages of their retirement saving. A quarter of people aged 55 and over who are not retired say they do not know the size of their pension savings, while 8 in 10 people with a DC pension have not given much thought to how much they should be paying into it to maintain a reasonable standard of living when they retire[4]. There are low rates of individuals seeking advice and guidance, even when it is in their interest to do so. According to the Pension Policy Institute, an estimated £400 million in pensions or other life insurance products is currently left unclaimed[5].

7. Furthermore 59% of 45-54 year olds say they are confused by their choices at retirement. This figure is 65% for women in the same age category. Only 28% of people said they knew what they planned to do with their retirement savings. This figure is less (24%) for women[6]. The general message is that people prefer simpler language. Terms like probability or likelihood, or technical language (e.g. average, median, percentiles) may be confusing for some people. There is a need to discuss future pension benefits and the uncertainty surrounding them in a simple and straightforward manner[7].

8. Access to more easily understandable information on pensions should enable consumers to keep track of multiple pension pots and better understand how much money they will

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[2] https://www.fca.org.uk/publication/corporate/famr-final-report.pdf

[3] https://masassets.blob.core.windows.net/cms/files/000/000/837/original/Final_2CV_report_MAS_branded_for_website__23.10.2017.pdf

[4] https://www.fca.org.uk/publication/data/data-bulletin-issue-12.pdf

[5] PPI (2018), Briefing Note 110 - Lost Pensions: what's the scale and impact?
https://www.pensionspolicyinstitute.org.uk/media/2855/201810-bn110-lost-pensions-final.pdf

[6] https://www.justgroupplc.co.uk/~/media/Files/J/JRMS-IR/news-doc/2020/majority-nearing-pension-age-confused-by-their-choices.pdf

[7] OECD Working Papers on Finance, Insurance and Private Pensions No.28. Communicating Pension Risk to DC Plan Members: The Chilean Case of a Pension Risk Simulator. Pablo Antolin, Olga Fuentes. October 2012

have in retirement, which should help them to make better decisions about retirement saving and use of wealth in retirement.

9. Research[8] has found that the vast majority of savers who said they read their statements, open their document and scan the contents for top line numbers they are interested in: what is in the pension now, what has been paid in the last year, and how much the pension has gone up or down in the last 12 months. Findings from the FCA's Financial Lives Survey 2017 reported that only 52% of adults with a DC pension received and read all of their pension statements in the last 12 months and 34% cannot recall receiving a pension statement at all. Research in to people's perception of the Simpler Annual Statement found that:

- Overall, people were very positive about the Simpler Annual Statement. They felt it was a document that could be understood by people with all levels of financial literacy.
- 84% agreed that 'it is easy for me to see how much is in the pension pot'. This figure was 73% for those who could not recall receiving a statement.
- If the document came by post, 87% said they'd be likely to read it. 71% said the same if they had to login to a pension account to access it.
- Only 3% of people said they would be less likely to read the Simpler Annual Statement than their current statement. 54% said they'd be more likely to read it.
- For those members who received a statement in the last 12 months but did not read it, 67% said they would be more likely to read the Simpler Annual Statement.

Rationale for intervention

10. Annual Benefit Statements are the one required set of information which members regularly receive about their workplace pension savings. Whilst there are some incentives for pension schemes and providers to improve access to shorter and more engaging information for members, evidence of convergence to date suggests that the market will not deliver a consistent approach to annual benefit statements so that members will receive key information in documents that vary in length, format and content. This inconsistency presents an additional barrier to engagement which increases the likelihood that members will find pensions confusing and complex and will fail to engage with their savings and retirement planning.

11. Accessible information on pension saving which enables individuals to better understand their savings and plan for retirement can be considered as a good. Information failures, driven by behavioural biases and perceived difficulty in understanding the pension system, mean that individuals may under-value the benefits of retirement planning, and by extension the value of access to a complete picture on pension saving. As a consequence, there is little consumer demand and therefore an inefficiently low level of provision of this service. This suggests that intervention is justified to correct this market failure and by extension to promote engagement in retirement planning.

12. The Pension Passport trial[9] interventions show that when a simple shorter information pack was provided, there was an increase of 9.8 percentage points in the likelihood of

[8] https://quietroom.co.uk/wp-content/uploads/Simpler-Annual-Statement-The-Member-Perspective_Ignition-House_FINAL.pdf

[9] Improving engagement with pension decisions: The results from three randomised controlled trials'. Kate Glazebrook, Chris Larkin and Elisabeth Costa. October 2017. https://www.bi.team/wp-content/uploads/2017/10/Pension-wise-trials.pdf

customers in the treatment group visiting the Pension Wise website, relative to the control group.

13. The need to provide more engaging information in shorter, more accessible user-friendly formats is generally recognised by industry. However, whilst providers work to develop their annual benefit statements to make them more engaging to their members, this work does not deliver consistency. Each provider operates in a silo and develops statements suited to their business model and their identification of their member needs but with the growth in ownership of multiple pension pots those members are not in receipt of statements from only one provider and may be receiving a number of statements which, whilst they reflect the user-research conducted by individual providers, are not consistent in length, content or format. That additional layer of complexity when looking at their pension savings may present a barrier which might make it more difficult for a member to understand the whole of their pension savings and plan accordingly.

14. A short, simpler, statement template was developed by an ad-hoc industry group during the review of AE in 2017 and since 2018 has been available for use by pension providers without cost. This, however, has not been widely adopted or providers have adopted variants which are not consistent. It is clear that providers will not move voluntarily to adoption of a consistent statement, and consider there to be insufficient incentive to make the required investment, even though they may continue to invest in design/re-design of their own statement formats. Whilst there are potential benefits/efficiency gains to pension providers if consumers as a whole are better engaged with pension saving and retirement planning and are encouraged to keep track of their pensions, save more, consolidate, and make more informed decisions, providers continue to look at engagement from the perspective of their business model and their members.

15. Furthermore, even if each pension provider would privately benefit if industry collectively adopts a shorter consistent approach, individual providers may rationally decide not to voluntarily move to use of an industry-standard statement if there was a risk that other providers would not make the investment to do the same and continue to seek a competitive advantage by presenting annual benefit statements in a different way. This suggests intervention is necessary to solve this problem.

Policy Objective

16. The overarching aim is to ensure the provision of shorter, simpler and consistent annual pension benefit statements to individuals in defined contribution schemes used for AE in order to:

    - Increase individuals' 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.

17. Achievement of the policy objective will make better use of the existing regulatory requirement for pension schemes to provide annual pension benefit statements through statements which are intended to be more engaging for recipients.

Description of options considered

Option 0: Do nothing – Leave the length, format and style of annual benefit statements to the market

18. This is the status quo, in which the market has not provided a solution that meets the policy objectives. It is possible in future that parts of the pensions industry may move towards annual benefit statements aligned with a standard template and which is free for voluntary use. This would deliver some simplification of statements for some members and some degree of consistency. However, this will not lead to overall consistency and members will continue to receive statements in a variety of formats with the opportunity to improve levels of member engagement in pension savings therefore lost.

Option 1: Encourage the market to voluntarily adopt a standard simpler annual benefit statement.

19. Despite the availability of a standardised template since 2017, voluntary adoption of the template remains limited and amongst the providers that have adopted it, the template has been varied so that inconsistencies have been introduced. There is a lack of industry consensus and without intervention it is expected that at best there would be continued slow or partial convergence around use of the statement template so that members would still receive inconsistent information. This would undermine the objectives and limit benefits for members.

Option 2: Government to regulate for use of a standard template by defined contribution schemes used for AE: (the preferred option).

20. Under this option, regulations would provide for the use of consistent, short, simpler statements for members in certain defined contribution schemes used for AE by amending the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014[10]. In addition, the proposed regulations will be accompanied by statutory guidance, which will include an illustrative statement template, to support the trustees and managers of schemes in scope to meet the requirements of the proposed new measures.

21. This option is preferred as the only one that ensures that all schemes in scope will reform their statements within a reasonable timeframe.

Non-monetised costs and benefits of each option

Non-monetised Benefits

22. For option 0, whilst there has been innovation in annual benefit statements amongst pension providers, there remains a wide variety and inconsistency in the formats. It is clear that the counterfactual option of no intervention with annual benefit statements would not deliver the realisation of benefits from having a consistent, shorter and simpler statement.

23. For option 1, there has been a limited and partial convergence towards the adoption of simpler statements in the last few years. It is understood that there are inconsistencies in the simpler statement templates being adopted, which may limit the realisation of the benefits of having a standard template.

[10] S.R.2014/79 https://iaccess.communities-ni.gov.uk/sspldbluevolumesinternet/users/internetsearchpage.aspx

24. For option 2, the results from the Randomised Control Trial ('the Pension Passport') help crystallise the benefits of regulating the adoption of the simpler statement template. These benefits are described below and can be seen in increased engagement, improved awareness, and the increased adoption of pensions advice and guidance. It is also expected that there would be more optimal decision making by individuals as a direct result, however, due to a lack of available evidence the benefits of this effect cannot be monetised.

25. Whilst there is evidence on the benefits of including the estimated retirement income in a statement and the benefits in terms of increased understanding and engagement with simpler communications, there is insufficient evidence that was similar enough to the intervention to allow the formation of a proxy.

The Pension Passport trial interventions[11]

26. The Pension Passport trial sought to test the effect of 'making it simple' on customer engagement. A Pension Passport was designed for the trial, which consolidates all the essential information from a wake-up pack (customers receive either a six-week, or six-month pack, at six weeks and six months before retirement which can range from 50 to over 100 pages) onto one side of A4 paper. The findings from this trial are broadly applicable to the recommended policy option given the product similarities and similar intended aims but it should be noted that the wake-up pack trialled is different to the simpler annual statement. The Pension Passport had two overarching design aims; to reduce the total amount of information customers have to digest, and to increase the salience of the most important information. Roughly half of the trial participants were sent the Pension Passport, while the other half were sent the usual wake-up pack. The overarching aim of the study was to see whether being sent the simpler pension passport positively influenced participant's engagement with their pension.

27. Consumer confidence to engage with the market was measured through follow-up surveys, and actual engagement (by measuring website hits/ number of phone calls). The treatment group were given different Pension Wise URLs/phone numbers to the control group. Hits to the Pension Wise websites were monitored, as well as calls coming in via the different phone numbers. Data was collected via follow-up phone surveys.

28. The results show a large, statistically significant, positive effect of the Pension Passport on the likelihood of visiting the Pension Wise website. 1.05% of people in the control group visited the Pension Wise website via their URL. This is compared to 10.9% of customers in the treatment group who visited the same website. So there was an increase of 9.8 percentage points in the likelihood of customers in the treatment group visiting the Pension Wise website, relative to the control group.

29. Customers in the treatment group were 8.1 percentage points more likely to report that they would 'do something else' as a next step in their retirement journey relative to the control group. Customers in the treatment group relative to the control group were 24.1 percentage points more likely to say the information they were sent prompted them into thinking about taking action.

30. The report concludes that current wakeup packs provide too much information to consumers and so it is difficult for customers to digest all of it and feel empowered to make a decision with their pension pots. The size of the packs could even lead to total

[11] 'Improving engagement with pension decisions: The results from three randomised controlled trials'. Kate Glazebrook, Chris Larkin and Elisabeth Costa. October 2017. https://www.bi.team/wp-content/uploads/2017/10/Pension-wise-trials.pdf

disengagement with the material. By focusing on the essential information and by reducing length, engagement and comprehension increases and more customers will take action.

Non-monetised Costs

31. There are possible opportunity costs for staff implementing simpler statements rather than working on other areas to boost engagement.

Direct costs and benefits to business calculations

32. The Pensions Regulator (TPR) has concluded that there are currently 539 providers of Defined Contribution (DC) schemes used for AE. This includes occupational DC schemes and contract based DC schemes, from a data cut taken from 1 February 2021.

33. As shown in Chart 1 below, the distribution of occupational DC schemes by membership is top heavy. In fact, only 30 occupational schemes have greater than 5000 members. However, by extrapolating data from all schemes being used for AE, it can be seen that the largest schemes account for 98.7% of all members (see Table 1 below) and 88.5% of all assets under management (see Table 2 below). It is assumed that there are 20 large (defined as greater than 5000 members) contract based DC schemes being used for AE (actual information is not recorded by TPR), giving an estimated 50 larger providers of DC schemes used for AE. The details of this assumption are outlined in para 44 below.

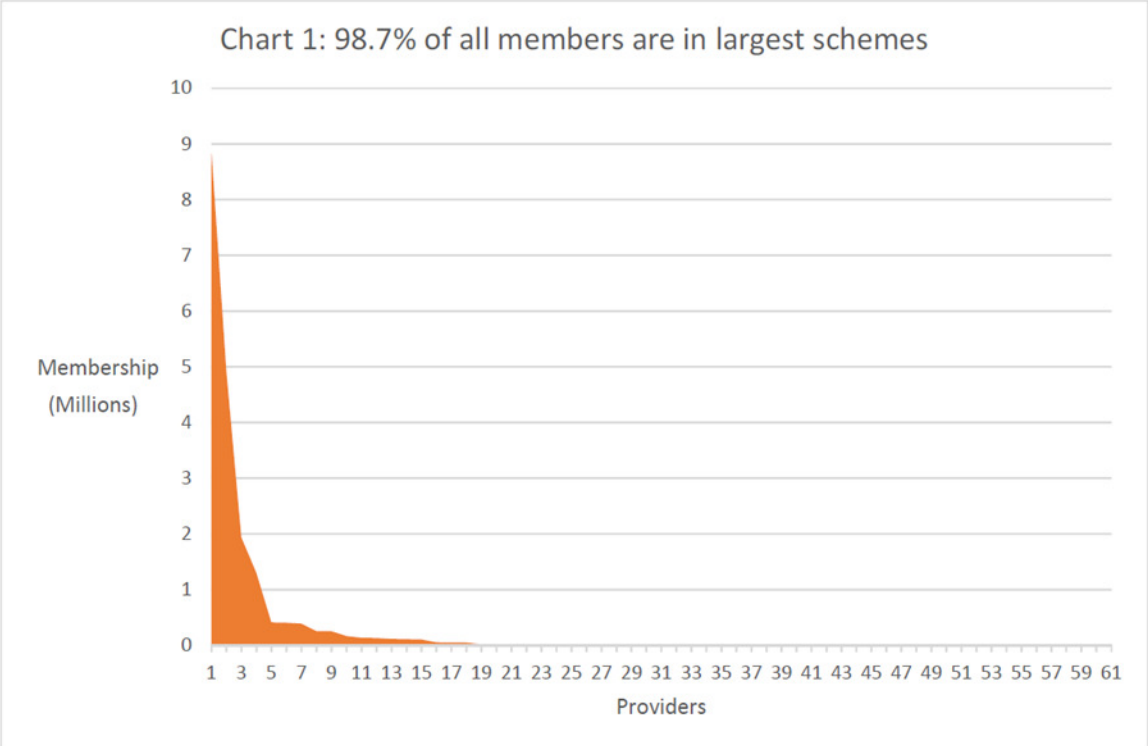


Table 1: Total members by size of scheme[12]

Scheme size (members)	Total members by size (excludes hybrid schemes) - 31/12/2019					
	2 to 11	**12 to 99**	**100 to 999**	**1,000 to 4,999**	**5,000+**	**Total**
All schemes being used for AE	2,000	2,000	41,000	187,000	17,514,000	17,747,000
Percentage	0.0%	0.0%	0.2%	1.1%	98.7%	

Table 2: Reported assets by size of scheme

Scheme size (members)	Reported assets by size (excludes hybrid and micro schemes) - 31/12/2019				
	12 to 99	**100 to 999**	**1,000 to 4,999**	**5,000+**	**Total**
All schemes being used for AE	£94,000,000	£1,749,000,000	£5,811,000,000	£58,835,000,000	£66,489,000,000
Percentage	0.1%	2.6%	8.7%	88.5%	

34. Research has indicated that the average transition cost for large providers is £674,208. These costs reflect familiarisation costs and the significant cost of changing IT systems.

35. For smaller providers (defined as having less than 5000 members) the estimated cost for transition is around £25,000.

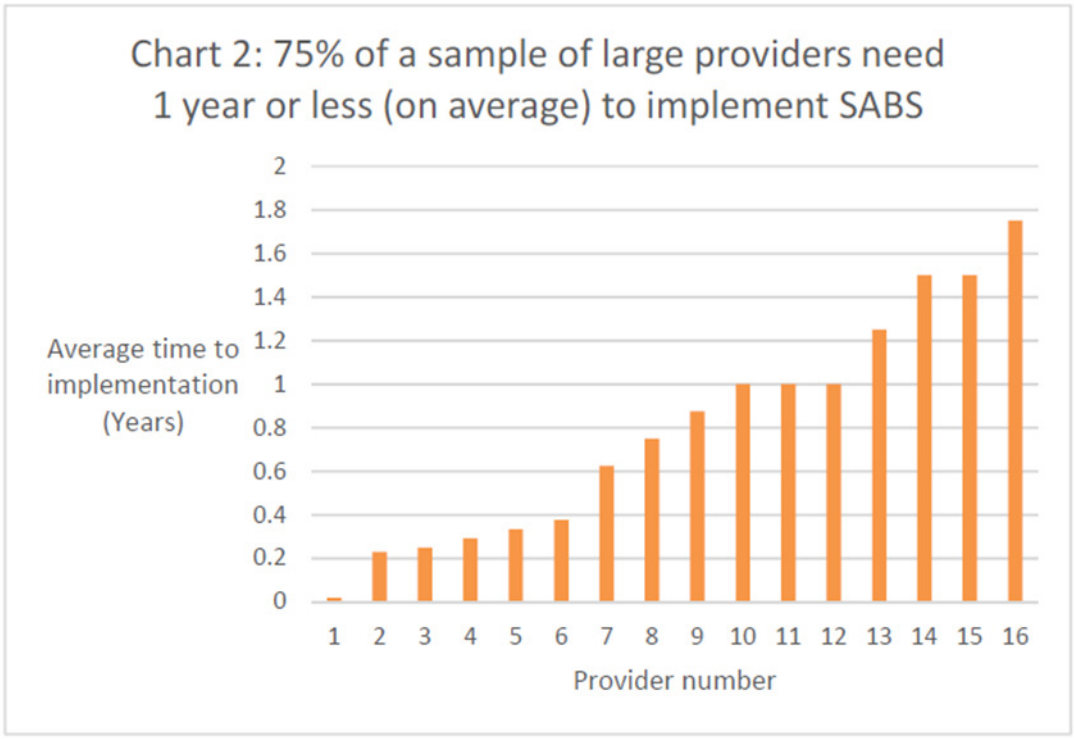
36. In order to calculate the direct costs to business the cost of transition has been multiplied by the number of providers in the smaller and larger categories separately – see Table 3 below.

Table 3: Cost to business calculations for the preferred option 2

Provider size (members)	Cost of transition per provider	Number of providers	Total nominal cost
Smaller (2-4999)	£25,000	489	£12,225,000
Larger (5000+)	£674,208	50	£33,710,417
Total		**539**	**£45,935,417**

37. It is estimated that around 75% of larger providers will on average (by taking the mid-points of ranges) complete the transition to simpler statements within 1 year (see Chart 2 below). The remaining 25% of larger providers will on average complete the transition period within 2 years. Gathering the regulatory information, and making system and technology changes (including system migration), for the required data items on the statement are the key elements of the transition that are believed to be particularly time consuming.

[12] Source: https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/file/file-four-ae-2020.ashx



38. Research has found that for some providers there would be savings in ongoing costs from issuing a simpler shorter statement. These savings focussed on the production, print, postage, and amount of paper they use. The savings also represent the reduced cost of user testing of new statements; typically, many providers would previously test and issue new statements on a cyclical basis. One larger provider indicated that the ongoing costs of issuing an annual benefit statement would fall from £350,000 per year to £180,000 per year, a saving of £170,000 per year.

39. If it is assumed that all 50 larger providers have an equivalent ongoing cost saving of £170,000 per year, after the transition period there would be a total nominal benefit of £74,400,000. The impact of this ongoing saving is to change the total nominal value of the policy from a net cost of around £45.9 million to a net benefit of £28.5 million (see Table 4 below). However, as the ongoing savings information is limited to one provider and other providers described ongoing savings estimates as 'small' or 'similar to before the policy', the £170,000 figure is an outlier and it is believed this is a top end estimate. It is believed that the ongoing cost savings for smaller providers would be negligible due to the lower number of annual member statements issued and so have excluded these benefits from the calculations below. These estimates based on qualitative research are the best available.

40. In order to provide scrutiny of the 75% reduction in on-going savings based on only one provider's estimate a sensitivity analysis has been conducted (see Table 7 below) based on the research referred to above. Whilst this evidence is not applicable to the overall cost estimates because it forms only part of the costs impacted, it does allow for a sense check. One provider reported that their print costs would reduce from 56p to 7p – a saving of 87%. A second provider reported that the ongoing costs arising from production and distribution would reduce by a third – a saving of 67%. Therefore, as the 75% reduction used for the best estimate does fall between 87% and 67% it appears to be the right order of magnitude.

Table 4: Benefits to business calculations for the preferred option 2 (high estimate)

Provider size (members)	Nominal benefits over 10 years per provider	Number of providers	Total nominal benefits (10 years)	Total nominal value (benefits minus costs)
Smaller (2-4999)	-	489	-	-£12,225,000
Larger (5000+)	£1,488,000 (post-transition)	50	£74,400,000	£40,689,583
Total		**539**	**£74,400,000**	**£28,464,583**

41. It is expected that there would be benefits to members from the simpler statements in the form of increased engagement, understanding of and ownership of their pensions. Furthermore, there may be behavioural changes with improved decision making around savings but it is not possible to monetise these effects due to a lack of evidence. These changes might be realised for example in the form of better decisions around pension freedoms, increased saving for retirement or alternatively the value a consumer places on increased confidence in their savings situation.

42. While it is not possible to estimate the benefits it is possible to calculate what the member benefit would need to be in order for this policy to have a positive net present value. Table 5 below shows that if members benefit by an equivalent of just 26p on average per annual statement then the policy would break even. This demonstrates that even with a small benefit per member for each statement the costs of the policy change would be effectively covered. The calculation has been made by dividing the estimated cost of the policy by the estimated number of statements across 10 years. It should be noted it is anticipated that the numbers of members who are automatically enrolled will grow in this period, and so this estimated figure is a maximum and could well be lower.

Table 5: Break-even point analysis for benefits to members

Estimated cost (10 years, constant prices)	Members of AE schemes (excluding hybrids) from Table 1	Number of annual statements (10 years)	Break-even benefit to members per statement
£45,935,417	17,747,000	177,470,000	£0.26

Risks and assumptions

43. The sensitivity analysis is broad based (+/- 50%) to test the effect on the costs faced by smaller providers. The range in the sensitivity analysis is £6,112,500 (-50%) to £18,337,500 (+50%) – see Table 6 below. At the assumed maximum of +50% for smaller providers, the total cost for all providers would increase to £52,047,917.

Table 6: Sensitivity analysis for smaller providers (with less than 5000 members) costs

Change in costs for smaller providers	Cost of transition per smaller provider	Number of providers	Cost for smaller providers
No change	£25,000	489	£12,225,000
+50%	£37,500	489	£18,337,500
-50%	£12,500	489	£6,112,500

44. TPR scheme return data (2019-202015) indicated that there were 80 larger schemes being used for AE and 870 of all sizes. TPR having undertaken a data cleansing and deduplication exercise have concluded that the overall figure for providers of schemes is 539 in February 2021. By applying the ratio from the total numbers of providers to schemes 539/870 (62%), to the 80 schemes, gives the total figure for larger providers at 50.

45. As noted earlier, one larger provider was willing to share the direct benefits to business of on-going cost savings. This estimate is treated as a high level estimate as other providers described ongoing savings estimates as 'small' or 'similar to before the policy'. The sensitivity analysis has been conducted reducing the annual figure by 50%, 75% and 99%. Table 7 below shows that over 10 years the nominal benefit to providers post transition would reduce to £0.7 million (-99%), £18.6 million (-75%), £37.2 million (-50%) from £74.4 million. The reduced benefits (by 75%) have been used to determine the best estimate given that the savings were described as small, and the significantly reduced benefits (by 99%) have been used to determine the low estimate to represent savings described as negligible.

Table 7: Sensitivity analysis for the direct benefits to larger providers (with more than 5000 members)

Change in benefits for larger providers	On-going benefits per larger	Number of providers	Nominal benefits for larger providers per year (post transition) Total nominal benefits post transition period	Total nominal benefits post transition period
(No change) **High estimate**	£170,000	50	£8,500,000	£74.4 million
-50%	£85,000	50	£4,250,000	£37.2 million
-75% **Best estimate**	£42,500	50	£2,125,000	£18.6 million
-99% **Low estimate**	£1,700	50	£85,000	£0.7 million

46. There is likely to be a trend of consolidation over time of schemes and pots but this has not been applied to the costs. There are benefits of scale in pension provision and consolidation of schemes has been occurring in recent years. TPR data shows that 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. This

would have an effect of potentially decreasing both the transition and on-going costs for providers.

Impact on small and micro businesses

47. TPR's 2019-2020 data on schemes used for AE shows that there are around 4000 members in the small and micro schemes with 2-99 members (see Table 1 above). The membership of small and micro schemes accounts for 0.1% of reported assets (see Table 2 above).

48. In 2019-2020 there were a reported 720 schemes in the 2-99 members' category. By applying the adjustment factor of 62% (from paragraph 44 above), for deduplication, it is estimated that there were 446 providers of DC schemes used for AE in 2021. By multiplying the 446 providers with the estimated cost for smaller providers (£25,000) this gives a total transition cost for small and micro businesses of £11,150,000.

Wider impacts

49. A risk was identified by larger providers that the default template for simpler statements would result in a lack of innovation for new and additional information. It was suggested including the following information (although it is noted that there would be measurement challenges and difficulties in fitting the information to two pages):

- Government tax relief, where applicable;
- Pensions and Lifetime Savings Association[13] retirement living standards i.e. what consumers need for a comfortable retirement;
- See it in combination with the state pension; and
- Giving the over 50s an alternative to an annuity. Industry information shows fewer people are buying annuities and that giving them options of cash and drawdown helps to crystallise in their minds what their money can buy.

50. As highlighted by the development of pensions Dashboards programme, there is a trend for pensions communications to be moving online. For example, members of one provider with an app, can look at their pot information at any time. They also issue video statements and are currently piloting an animated statement, which has not rolled out to a wider audience yet, but are seen as the future of communications.

51. Research has found that for the preferred option there is a perceived lack of flexibility for targeting information in the simpler statements. The industry would like to see the flexibility to enhance what providers offer customers through the personalisation of statements. However, this does not recognise that schemes will continue to be able to supplement the statement with additional documentation (as long as it is not added to the body of the prescribed template) nor that schemes must continue to have regard to their duty under Equality legislation to provide alternative formats.

Monitoring and Evaluation

52. TPR would be responsible for monitoring compliance and reviewing the post-implementation of simpler statements on DC schemes used for AE.

[13] https://www.plsa.co.uk/

Other Impacts

Equality

53. In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on these legislative proposals and has concluded that they would not have significant implications for equality of opportunity and considers that an Equality Impact Assessment is not necessary.

Environmental

54. There are no implications.

Rural proofing

55. There are no implications.

Health

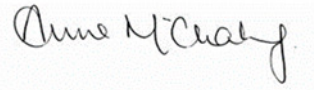
56. There are no implications.

Human rights

57. The Department considers that the regulations are compliant with the Human Rights Act 1998.

Competition

58. There are no implications.

Approved by:	 Anne McCleary Director of Social Security Policy, Legislation and Decision Making Services	**Date: 25 May 2022**

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