

Summary: Intervention & Options

Department /Agency: Department for Work and Pensions	Title: Impact Assessment of The Occupational and Personal Pension Schemes (Disclosure of Information) (Amendment) Regulations 2010	
Stage: Consultation	Version: Consultation	Date: December 2009
Related Publications: Review of Disclosure of Information Requirements		

Available to view or download at:

www.dwp.gov.uk/consultations/2010/

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What is the problem under consideration? Why is government intervention necessary?

Existing regulations dealing with pension scheme disclosure requirements make no provision for schemes to use modern methods of electronic communication. A move to such methods of communication has the potential to save schemes significant amounts of money. In the absence of specific provisions on electronic communications, as provided by the current proposed regulations, schemes would not be able to realise the full benefits of communicating in this way.

What are the policy objectives and the intended effects?

To assist schemes to adopt more efficient and cost-effective means of communication with their members.

What policy options have been considered? Please justify any preferred option.

The earlier consultation sought views on moving to a more principles-based approach to regulation in this area, but responses highlighted significant problems. Such a reform has therefore been rejected in favour of making the specific change described above.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The effects of the regulations will be monitored in the context of further work on a proposed consolidation of the disclosure legislation.

Ministerial Sign-off For SELECT STAGE Impact Assessments:

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:

Summary: Analysis & Evidence

Policy Option: Electronic Communication	Description: Specifying that information can be provided electronically
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' There is no requirement for schemes to alter their current procedures. If a scheme chooses to make more use of electronic communications, there may be some one-off set-up costs in moving to an electronic system but these should be negligible on the grounds that the vast majority of employers will already have some form of IT infrastructure in place. Furthermore, any move to electronic communications would be made only if there was a financial benefit to the employer. No data exists that allows an estimate of any set-up costs to be made..				
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">One-off (Transition)</td> <td style="width: 40%; text-align: center;">Yrs</td> </tr> <tr> <td style="background-color: #ffffcc;">£ Negligible</td> <td style="text-align: center;">1</td> </tr> </table>		One-off (Transition)	Yrs	£ Negligible	1
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Other key non-monetised costs by 'main affected groups' Those members without ready access to a computer could find it harder to access information on their benefits. However, the regulations require schemes to inform members if they propose to move to electronic communications in future and to ask whether the individual member prefers to receive information by post. If a member elects to continue to receive information in this way, the scheme must honour that preference.						

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups' The figure here represents the annual savings to employers by moving from paper-based communications to electronic communications. These savings would be generated by no longer incurring stationery and postal costs in respect of required member communications under the disclosure regulations. The annual savings would be realised for as long as a pension scheme continues to use electronic communications. Given the uncertainties around how long-lived pension schemes are it seems sensible not to impose an arbitrary time period over which benefits are realised. Instead it is more appropriate to recognise that the benefits accrue on an on-going basis.				
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Other key non-monetised benefits by 'main affected groups'						

Key Assumptions/Sensitivities/Risks Benefits are hard to estimate in this case and the figure is indicative. It is based on the assumption that all schemes will move from using postal to electronic communications, and all members agreeing to use the electronic channel. Actual take-up is likely to be lower, and savings accordingly less, but there is no data on which to base an estimate. The benefits shown here therefore represent an upper bound estimate on the cost savings. The scale of benefits is also likely to be affected by changes in future levels of pension scheme membership: again these are hard to predict.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	UK				
On what date will the policy be implemented?	1.10.10				
Which organisation(s) will enforce the policy?	N/A				
What is the total annual cost of enforcement for these organisations?	£ N/A				
Does enforcement comply with Hampton principles?	Yes/No				
Will implementation go beyond minimum EU requirements?	N/A				
What is the value of the proposed offsetting measure per year?	£ N/A				
What is the value of changes in greenhouse gas emissions?	£ N/A				
Will the proposal have a significant impact on competition?	No				
Annual cost (£-£) per organisation (excluding one-off)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; background-color: #ffffcc;">Micro</td> <td style="width: 25%; background-color: #ffffcc;">Small</td> <td style="width: 25%; background-color: #ffffcc;">Medium</td> <td style="width: 25%; background-color: #ffffcc;">Large</td> </tr> </table>	Micro	Small	Medium	Large
Micro	Small	Medium	Large		
Are any of these organisations exempt?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">N/A</td> <td style="width: 25%; text-align: center;">N/A</td> </tr> </table>	No	No	N/A	N/A
No	No	N/A	N/A		

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £	Decrease of £	Net Impact £ To be assessed

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

Background

1. As part of the rolling deregulatory review of private pensions legislation, the Department has reviewed requirements relating to the disclosure of information by occupational, personal and stakeholder pension schemes. A public consultation exercise was conducted earlier this year on proposals to introduce an "overarching principle" in the relevant legislation, at the same time stripping back on the detailed, prescriptive requirements set out in regulations. Consultation responses raised concerns that the proposed reform could have unintended and unwelcome consequences for schemes. In light of this, the intention now is to carry out further work on possible consolidation and other changes to the relevant legislation, in the meantime making a number of specific changes which are considered necessary or desirable. These specific changes are contained in the current package.

Contents of the current proposed amending regulations

2. The changes fall into four categories: (i) amendments to facilitate the use by schemes of electronic means of communication, (ii) exemptions for the Personal Accounts scheme in respect of certain requirements where the relevant information will be held by individual employers rather than by the scheme itself, (iii) some changes to the legislation covering the detailed information which must be included in annual benefit statements and statutory money purchase illustrations, and (iv) a reduction (from 2 months to 1 month) in the maximum period within which new members of an occupational scheme must be provided with basic information about the scheme, to tie in with timescales for automatic enrolment into qualifying workplace pension schemes from 2012. Items (ii) to (iv) introduce no, or negligible, costs or savings as explained in paragraphs 3 to 5 below.

3. Item (ii) - some specific exemptions for the future Personal Accounts scheme - has no impact on existing schemes.

4. Item (iii) - changes to annual benefit statement requirements - is intended to make statements shorter and more user-friendly for the reader. Any savings for schemes from these changes would be likely to be negligible. (The use of electronic means of providing these statements is however a matter within the scope of item (i).)

5. Item (iv) - reduction in maximum time within which basic information must be provided to new members, from 2012 - is a matter on which the Department consulted earlier this year. The original proposal was to reduce the maximum time to 14 days to ensure that individuals automatically enrolled into a pension scheme would have access to basic scheme information to help them decide whether to stay in the pension scheme or to opt out within the automatic enrolment joining window. In practice, most new members are provided with the required information in the form of a scheme booklet at or around the time they first take up employment and join the scheme, and the majority of respondents were therefore content with the proposed 14 day time limit. However, a separate consultation on the automatic enrolment process has resulted in an extension of the automatic enrolment window to a longer, 1 month timeframe. This is reflected in the proposed revised time limit for the provision of basic scheme information, also of one month. The Department believes that costs arising from this change from 2012 will be nil or negligible.

6. This Impact Assessment therefore concerns item (i) - amendments to facilitate electronic communications.

Electronic communications - the policy

7. Existing regulations include provisions for the service of documents by post. The provisions include a deeming provision such that the trustees of a scheme can be sure they have satisfied their responsibility to provide deferred or pensioner members with required information if they have sent the relevant information to them by post to their last known address. Whilst there is no prohibition as such against schemes providing information by electronic means, the current provisions favour a scheme simply maintaining a postal method of delivery of information to members, especially in the case of deferred members and pensioners.

8. The Department intends to facilitate schemes' use of electronic means of providing information, in the interests both of achieving efficiency savings and of enabling more flexible and effective access to information by members.

9. The proposed amendments will substitute new provisions for the existing ones covering service of documents by post. The new legislation will allow a scheme to satisfy the relevant disclosure requirements by providing information either using postal or electronic means. As long as the information has been sent to the last known postal or electronic address, the scheme's trustees or managers will have met the legislative requirements. Electronic communications may take the form of a notification (eg by email or text message) that information is available for the member on a website to which he has been granted secure access.

10. The amended legislation will contain certain safeguards. These are that (i) a member may opt out of electronic communications, in which case the scheme must provide information in hard copy format, (ii) existing members who do not already receive information by electronic means must be given advance warning that future communications will be in this format unless they opt out, (iii) schemes must take account of the special accessibility needs of disabled people in implementing electronic communications, and (iv) information provided electronically must be in a printable format.

11. In summary, the intention is to allow schemes, if they wish, to move to electronic communications as their default means of providing information to members, whilst setting out safeguards ensuring that individual members who prefer hard copy information by post will have an absolute right to elect to receive information in this way.

Electronic communications - the basis of the estimated savings figure of up to £27m pa

12. The available data on current pension schemes' information delivery is very limited. Due to the scope of the information required, a number of assumptions have been made in reaching the estimated benefit of this measure.

13. The estimate is based on a £1 per item cost of information delivery, which relates to a pension scheme member receiving their annual communication in a single package. This value is an estimated average administration cost (ie paper-based cost) per individual member of a scheme per annum and is based on estimated average postal and stationery prices.

14. It assumes that, generally, one paper-based service is delivered to an individual scheme member each year. Examples of such communications include:

- An Annual Benefit Statement (ABS) or Statutory Money Purchase Illustration (SMPI);

- Information for new members or retiring members;
- An annual scheme funding report (defined benefit (DB) schemes only);
- Ad hoc communications requested by members such as Cash Equivalent Transfer Values (CETVs) and valuations of pensions on divorce.

15. In cases where individuals would receive more than one piece of information in a year, it is assumed that schemes send all the information in a single communication, in order to keep costs low. The only exception to this is in the case of ad hoc communications, where an adjustment has been made to reflect the fact that these are ad hoc and will possibly require additional communications.

16. The estimated savings are generated simply by multiplying the per member communication cost by the number of members who would receive a communication. Affected members cover active, deferred and pensioner members in both the public and private sectors. There are currently around 400,000 people joining private sector occupational schemes each year and 900,000 people retiring from such schemes. Both these groups of people will need to receive communications at the point of joining the scheme or retiring, as applicable. In addition, there are currently 12.9 million members of private sector DB schemes (actives, deferreds and pensioners), each of whom must receive an annual scheme funding report, and 1.9 million members of private DC schemes (actives, deferreds and pensioners) who must all receive Annual Benefit Statements and Statutory Money Purchase Illustrations as appropriate. In the public sector, 8.3 million members are assumed to be covered by the disclosure regulations.

17. In the absence of any data on the number of schemes already using electronic communications, it has been assumed that all schemes (public and private sector) will make the move from paper-based communications to electronic communications, with the figures showing estimated overall total benefits. In fact, some schemes may already be making use of electronic communications – it is extensively used by some public service schemes, for instance - and, furthermore, some may choose not to switch to electronic communications at all. Hence, the overall figures will represent an upper-bound estimate of the savings to be made.

18. The benefits of moving to electronic communications continue indefinitely and have not been presented in present value terms over a set time period. This would provide a misleading interpretation of the benefits of the policy since it implies that they would be time-limited; specifying an annual savings figure represents a more accurate interpretation of the benefits of the move to electronic communications.

IMPACT TESTS

Competition

19. There are no implications for competition policy.

Small firms

20. There are no special impacts on small firms.

Legal aid

21. There are no implications for legal aid.

Sustainable development, carbon assessment, other environmental impact

22. There will be a negligible benefit from schemes printing less hard copy information, which is likely to be offset by a negligible disbenefit in members printing their own copies.

Health

23. There are no implications for health.

Race equality

24. There are no implications for race equality.

Disability equality

25. The draft regulations include a requirement for schemes to take into account Web Content Accessibility Guidelines in implementing electronic communications. Members will also have a right to opt out of electronic communications and receive information by hard copy instead. To the extent, therefore, that individual disabled members are in the future more likely to have a choice as to which means of communication works best for them, this may represent a small improvement in the accessibility of pensions communications for disabled people.

Gender equality

26. There are no implications for gender equality.

Human rights

27. There are no implications for human rights.

Rural proofing

28. There are no implications for policy on rural issues.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No