Regulatory Policy Committee	**Opinion**
Impact Assessment (IA)	Minimum Governance Standards for DC workplace pensions, including the establishment of Independent Governance Committees for contract-based schemes
Lead Department/Agency	Department for Work and Pensions
Stage	Consultation
IA Number	DWP0045
Origin	Domestic
Expected date of implementation	October 2014 (SNR 8)
Date submitted to RPC	19 February 2014
RPC Opinion date and reference	17 March 2014 RPC14-DWP-2032
Overall Assessment	**AMBER**

RPC comments

The IA is fit for purpose. While the proposals do not appear to apply to micro-businesses, the IA should provide greater explanation of the potential impacts on small businesses.

Background (extracts from IA)

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 outcomes for scheme members. The recent Office of Fair Trading (OFT) DC market study[1] 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."

What are the policy objectives and the intended effects?

"The policy objective is to ensure that all individuals saving into a workplace pension 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 quality standards for DC workplace pensions will address this weakness in the market and improve outcomes for scheme members and help to maintain trust in automatic enrolment and private

[1] Office of Fair Trading (OFT), 2013, *Defined contribution workplace pension market study*, OFT 1505 http://www.oft.gov.uk/shared_oft/market-studies/oft1505;jsessionid=776C021FE0A4F261C6131B1C0E3C3FA8

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pension saving."

What policy options have been considered, including any alternatives to regulation?

"*Two options have been considered: 1) do nothing (continue to work on a voluntary basis with The Pensions Regulator (TPR) and Association of British Insurers (ABI) to improve governance); and 2) legislate for minimum governance standards in trust based schemes and introduce new requirements on contract based schemes through changes to FCA rules.*

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 referral of the DC workplace pensions market to the Competition Commission.

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 would form part of the overall package of reforms the Government is proposing to address the weak demand side, including action to protect members from unfair or excessive charges (considered in a separate IA) and would involve two aspects: legislating to strengthen governance in trust based pension schemes, by introducing new minimum governance standards and reporting requirements; and introducing new requirements for the governance of contract based pension schemes through changes to FCA rules. We have considered whether non-legislative options would 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 schemes are protected, not just those who are saving into schemes which have chosen to meet best practice or voluntary requirements. This is especially important given the lack of choice most workplace savers will have about which scheme to save in."

Identification of costs and benefits, and the impacts on business, civil society organisations, the public sector and individuals, and reflection of these in the choice of options

The IA proposes to improve governance of the market for DC workplace pensions. This will affect business through the cost of establishing and maintaining Independent Governance Committees (IGCs), which will be responsible for ensuring pension funds are run in the best interest of members.

The IA explains that, under the 'Do Nothing' option, the industry adopts governance arrangements that are considered to be insufficiently independent. The Department intends to explore during consultation the expected costs of the proposals and the extent to which there may be additional costs (paragraph 56). It is important that the Department tests the estimates at consultation to ensure they are robust in the final stage IA.

The IA states that the Financial Conduct Authority (FCA) will be responsible for overseeing the IGCs (paragraph 41). The IA should provide detail on the additional costs associated with this at final stage.

Comments on the robustness of the Small & Micro Business Assessment (SaMBA)

The proposals increase the scope of regulation on business and come into force after 1 April 2014. A SaMBA is therefore required. While the proposals do not appear to apply to micro-businesses, the IA should provide greater explanation of the potential impacts on small businesses and how the proposal will mitigate the impacts on them. The Department has provided additional information on small and micro businesses as pension providers, explaining that schemes are either run by large businesses or are ‘trust-based’ schemes run by a large employer on behalf of their employees.

Comments on the robustness of the OITO assessment.

The IA says that some of the regulatory proposals are in scope of OITO and would impose a direct net cost on business (an ‘IN’). Based on the evidence presented, this assessment is reasonable and is consistent with the current Better Regulation Framework Manual (paragraph 1.9.10). The Department should strengthen the evidence supporting the estimated equivalent annual net cost to business, so that it can be validated by the RPC at final stage.

The IA states that the specific requirements for contract-based schemes are considered to be out of scope of OITO, because they will be implemented through changes to the FCA’s rules (paragraph 89). The IA should provide further detail at final stage to support this statement.

Signed **Michael Gibbons,** Chairman