Title: **Minimum Governance Standards for DC workplace pensions, including the establishment of Independent Governance Committees for contract-based schemes** **IA No: DWP0045** **Lead department or agency:** DWP **Other departments or agencies:** HMT	Impact Assessment (IA) **Date: 19/02/2014** **Stage:** Consultation **Source of intervention:** Domestic **Type of measure:** Secondary Legislation **Contact for enquiries**: Nicola Gilpin (020 7449 7452)
Summary: Intervention and Options	**RPC: Amber**

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009	**In scope of One-In, Two-Out?**	**Measure qualifies as**
-£40.5m	-£11.4m	£1.02m	YES	IN

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, improve outcomes for scheme members and help to maintain trust in automatic enrolment and private pension saving.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option 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 that 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 into.

Will the policy be reviewed? No	**If applicable, set review date:** N/A				
Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes

[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

What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)	**Traded:** N/A	**Non-traded:** N/A

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: 19/02/2014

Summary: Analysis & Evidence — Policy Option 1

Description: Do nothing: Government continues to work with the Pensions Regulator and the Association of British Insurers to improve governance standards on a voluntary basis

FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	**High:** 0	**Best Estimate: 0**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low				
High				
Best Estimate	0		0	**0**

Description and scale of key monetised costs by 'main affected groups' There would be no additional regulatory costs for Pension Providers, schemes, or employers sponsoring DC occupational pension schemes under this option. IGCs would be established on a voluntary footing for the ABI's members and additional quality requirements for DC occupational pension schemes would be set out in strengthened TPR guidance without a legislative underpin. There would be costs for pension providers and for DC occupational schemes if they intended to adopt the voluntary measures. We estimate a £0.5m set-up cost for IGCs and ongoing costs of £2m per year and costs of £2.65m per year for enhanced governance activity in DC occupational schemes (in 2013/14 prices).

Other key non-monetised costs by 'main affected groups'

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant	**Total Benefit** (Present Value)
Low				
High				
Best Estimate	0		0	**0**

Description and scale of key monetised benefits by 'main affected groups'

Other key non-monetised benefits by 'main affected groups' There may be benefits for some individuals if the voluntary non-regulatory initiatives lead to improvements in governance. This would lead to a better alignment of incentives and therefore better value for money and outcomes for individuals. It is not possible to quantify the long-run benefits for individuals. Employers will also benefit from good governance, they will be getting value for money and also they can demonstrate to their employees that they are in a good scheme. The pensions industry may benefit from these measures through increased consumer confidence in the industry.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5

There are no regulatory costs associated with this option as all activity is voluntary, but there would be some costs associated with some of the voluntary activity. As this is the baseline, this option has zero costs and benefits (relative to itself). There remains a risk that there will be governance gaps in the market for some scheme members or that non regulatory approaches do not go far enough to improve governance standards. Estimates of the costs of voluntary activity are based on data from industry gathered through stakeholder engagement (see description of option 2 for further details on how these estimates were calculated).

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**In scope of OIOO?**	**Measure qualifies as**
Costs: 0	**Benefits:** 0	**Net:** 0	N/A	N/A

Summary: Analysis & Evidence — Policy Option 2

Description: Introduce Independent Governance bodies and minimum quality standards through regulation

FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High: -81	Best Estimate:-40.5

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low				
High	1	1	9.3	**81**
Best Estimate	0.5		4.65	**40.5**

Description and scale of key monetised costs by 'main affected groups' We estimate set-up costs could be between £0.5-£1m to establish 20 Independent Governance Committees (IGC) and ongoing running costs for all IGCs could be between £2m-£4m per year in 2013/14 prices. These costs would be met by providers of contract-based schemes. For DC occupational schemes, the cost of meeting the standards and reporting requirements could be met either by the scheme or by the employer sponsoring the scheme, or a combination of the two. The costs to occupational schemes and sponsoring employers could be between £2.65m- £5.3m per year in 2013/14 prices.

Other key non-monetised costs by 'main affected groups'

For DC occupational schemes there may be some costs associated with establishing a chair. We have insufficient information on which to calculate this additional cost, though we expect it to be relatively small as we think most large trust based schemes are likely to have a chair already and those without a chair could appoint one from amongst the existing trustees. We would welcome further evidence on this issue.

Mastertrusts will need to meet some specific requirements in addition to having a chair of trustees and producing an annual statement to demonstrate that the governance requirements have been met. The cost of these additional requirements will fall on the scheme. We have no information on the likely additional costs this will generate for Mastertrust providers. We would welcome further evidence on this issue.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant	Total Benefit (Present Value)
Low				
High				
Best Estimate	N/A		N/A	**N/A**

Description and scale of key monetised benefits by 'main affected groups'

N/A

Other key non-monetised benefits by 'main affected groups'

All scheme members would benefit from good quality governance. This would lead to a better alignment of incentives and therefore better value for money and outcomes for individuals. It is not possible to quantify the long-run benefits for individuals. Employers will also benefit from good governance, they will be getting value for money and they can demonstrate to their employees that they are in a good scheme. The pensions industry may benefit from these measures through increased consumer confidence in the industry.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5

Some quality requirements for DC occupational schemes are already set out in legislation and supported by a TPR code of practice. TPR also produces guidance about further standards which are not required by legislation and ABI members are intending to set up IGCs on a voluntary footing. Our high estimates represent the cost of newly establishing IGCs and the cost of meeting the new DC occupational pension scheme requirements. The high estimate makes no allowance for the fact that some of this activity would be happening already (option 1). In practice, the additional cost of the measures we are proposing is likely to be less than the high estimates set out here. We have made an assumption that the additional costs of the new requirements would be half of the high estimates in order to make an allowance for activity that would be happening on a voluntary basis under option 1. We intend to test this assumption as we gather further information following the publication of the Command Paper. At present it represents our best estimate of the additional regulatory cost of these measures. We have assumed that there would be 20 IGCs established to cover all providers. We will test this assumption with stakeholders following the publication of the Command Paper. Estimates are based on data from industry gathered through stakeholder engagement.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 1.02	**Benefits:** 0	**Net:** 1.02	Yes	In

Background

1. To meet the fiscal challenge of an ageing society, the UK needs its working age population to save significantly more in workplace pension schemes. Requiring employers to enrol their employees automatically into a workplace scheme will result in much higher participation than purely voluntary approaches to private saving. Automatic enrolment began in 2012 for the largest employers and will be gradually rolled-out to medium, small and micro employers by 2017. It will generate an extra £11 billion a year in private pension savings from around six to nine million people[2] newly saving or saving more into a pension. To date 3.2 million eligible individuals have been automatically enrolled into a pension scheme[3] and average opt-out rates have been much lower than predicted, at around 9%[4].

2. Automatic enrolment drives a fundamental shift in the dynamics of the workplace pensions market. The old model - whereby most individuals had to actively decide whether to join a pension scheme and the pensions industry had to spend time and money persuading them to do so – has gone. Instead, employers have a legal duty to default their employees into a pension scheme and inertia keeps most of them there. This leads to a huge increase in the number of workplace saving arrangements and funds flowing through the pensions industry. The Government believes that this shift brings a new responsibility to ensure minimum standards apply in workplace schemes, including ensuring that schemes are overseen by competent bodies acting in members' interests. The creation of these minimum standards will help maintain confidence in automatic enrolment and the pensions industry that supports it.

3. The Government has undertaken two consultations on how best to create minimum standards that reflect these changed dynamics. In the summer of 2013 it issued a Call for Evidence on minimum quality standards in workplace defined contribution schemes that asked for views on governance, scale, investment and administration standards. In October 2013 a consultation on charging took place that sought views and evidence on whether the current charging models and levels remained appropriate in the new environment of default enrolment.

4. In January 2013 the OFT launched a market study to investigate whether the DC workplace pension market was working well for consumers. With the roll-out of automatic enrolment the OFT considered it timely to consider whether competition between providers is set up to work in the best interests of current and future savers. The OFT study was undertaken over a period of nine months and involved consultation with DWP, The Pensions Regulator and the Financial Services Authority. The OFT also engaged with key players including the National Association of Pension Funds, the Association of British Insurers, the Investment Management Association, pension providers, trade bodies and those that represent employers and employees. Their report provides the most up-to-date and thorough analysis of the DC workplace pension market available. Conclusions from the OFT's work are set out below and inform the proposals considered in this Impact Assessment.

[2] DWP, July 2012, *Workplace Pension Reform: digest of key analysis*
[3] The Pensions Regulater (TPR), March 2014, *Automatic Enrolment Registration Report*
[4] DWP, 2013, *Automatic Enrolment evaluation report 2013,* based on research with large employers

5. This Impact Assessment accompanies a Command Paper which consults on proposals to introduce minimum quality standards in workplace pension schemes, designed to strengthen the weak demand side identified by the OFT. The Command Paper also sets out our proposals to control charges in the default fund in workplace pension schemes used for automatic enrolment. These charge control proposals are considered in a final stage Impact Assessment published alongside this consultation stage Impact Assessment and the Command Paper.

Rationale for intervention

6. The introduction of 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. Automatic enrolment will change the pensions landscape with many more people saving and many more employers choosing a workplace pension scheme on behalf of their employees. Against this backdrop of structural change in the DC workplace pensions market it is important to ensure that savers have confidence in the system and they are getting value for money through low cost, high quality pension schemes.

7. In September 2013 the OFT published the findings of its market study into DC workplace pensions. Overall they found that competition alone cannot be relied upon to drive value for money for all savers in the DC workplace pension market. Their report, based on extensive and rigorous analysis and argument, concluded that:

- the DC market had one of the weakest buyer sides they had witnessed and that competition alone could not be relied upon to drive good outcomes for consumers;

- the weak buyer side is primarily a result of a principal-agent problem – the employer chooses a workplace scheme for their employees but has different incentives. The complexity of the market and products further complicates the ability of employers to make decisions in the best interest of employees;

- 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, but that the governance of many schemes across the market is not sufficiently strong to provide this scrutiny;

- the reference test for a market investigation had been met, but a referral to the competition authorities was not required on the basis that government and industry would work together in addressing the weak demand side and safeguarding against consumer detriment.

<u>Weaknesses in the buyer side of the market</u>

8. The OFT identified three significant weaknesses in the buyer side of the market. Firstly, unlike other, well functioning markets, the ultimate beneficiary of the pension (the individual) in a workplace scheme is not responsible for selecting the scheme and monitoring value for money. This gives rise to a clear principal-agent problem, as employers will often be driven by factors other than what is best for individuals. The potential for misaligned incentives is evident from research carried out by the National

Associate of Pension Funds (NAPF) and B&CE[5], which found that whilst many employers are motivated by keeping staff happy, and smaller employers are often the most concerned about the welfare of their employees, the very smallest employers tend to be most concerned with survival, and minimizing the costs of automatic enrolment to them as an employer.

9. The second weakness identified by the OFT was the complexity of the product. There is considerable survey evidence showing that individuals have little understanding or engagement with their pension[6]. In addition, given the benefits are realised in the distant future; beneficiaries are unable or lack the incentive to influence employers to act in their interests.

10. The final weakness they identified in the buyer side of the market was the ability of employers to drive competition on key elements of value for money. The OFT found that many employers do not have the necessary understanding of workplace pensions to make good judgements on the value for money of their pension schemes. In addition, many employers may not have the resource or willingness to provide ongoing governance or scrutiny of scheme value for money.

<u>Improving Scheme Quality and Governance to tackle weaknesses in the buyer side of the market</u>

11. The OFT study emphasises improving scheme governance as a way of mitigating the buyer side weaknesses in the market. Good quality, independent scheme governance can ensure ongoing scrutiny of value for money on behalf of scheme members, helping to achieve good member outcomes. They said*: "well governed schemes are more likely to provide value for money by reviewing the quality of administration and investment management services and the costs and charges on an ongoing basis. If governance is not performed well, it can lead to member detriment due to the use of outdated investment strategies that do not deliver returns or expose members to excessive risks, or result in them paying higher charges than necessary to leave them with sub-standard administration."*

12. The OFT found that the governance of many schemes across the market is not sufficiently strong to provide this scrutiny at the moment. Whilst governance appears to be working well for many large trust based schemes, or in some cases where employers have put together internal governance panels, governance gaps have developed that increase the risk that many smaller scheme members and members of contract based schemes will not get value for money in the long term.

13. The OFT concluded that the governance that providers have put in place on the contract - based side of the market is often not sufficiently independent and may not take into account all the key elements of value for money. In addition, because many major contract -based providers have a vertically integrated fund management arm, there is a potential for conflicts of interest.

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[5] NAPF and B&CE, September 2012, *Telling Employers about DC Pension Charges: Research*

[6] Office of Fair Trading (OFT) , September 2013, *Defined contribution workplace pension market study*, p.16 and p.76

14. On the trust- based side of the market, the OFT raised concerns that trustees of many smaller schemes are not regularly scrutinising value for money of their investment choices or scheme administration and that in many cases those scheme's trustees do not have the necessary expertise either.

15. The fact that some smaller trust based schemes are not being governed effectively is reflected in the Pension Regulator's 2013 Governance Survey, which found that large DC schemes are more likely than medium or small DC schemes to view their trustee boards' governance as very effective – 78% of large DC schemes view their trustee board's governance as very effective compared to 61% of medium DC schemes and 41% of small DC schemes[7].

16. Meanwhile, the survey found that one in five of the DC schemes asked were not aware of The Pensions Regulator's 'six principles for good workplace DC' published in 2011 (22%). Of those schemes that were aware, just under a third (31%) assess their scheme as meeting all the principles [8]

17. On the basis of the evidence they collected the OFT concluded that they had "*concerns that lack of capability and incentive misalignment on the buyer side of the market, and the difficulty for many employers and employees in assessing and comparing quality, make it very difficult to generate competition on administration, the investment strategy and the quality of scheme governance".* In light of their findings, the OFT recommended that the Government introduce a minimum governance standard for all pension schemes, in order to ensure a consistent degree of ongoing scrutiny and assessment of value for money for members.

<u>OFT report recommendations</u>

18. The OFT made recommendations for actions for different parties to take in response to its findings about the weak buyer side of the market for workplace defined contribution pensions. These recommendations applied across both the trust and contract areas of the workplace DC market.

19. A number of these do not require legislative intervention, including:
    - An audit of older and high charging schemes;
    - Work by TPR with DWP to set out how schemes can assess value for money and the key barriers to closing trust based schemes; and
    - Government and regulators to ensure an equivalent level of protection between Mastertrust and contract- based, off the shelf products.

    These recommendations are being taken forward alongside the work on the legislative proposals considered in this document.

20. To help address the weaknesses identified in contact- based governance, the ABI and its members agreed the introduction of Independent Governance Committees with providers of contract and bundled trust based schemes. We welcome this agreement and the work

[7] The Pensions Regulator (TPR), 2013, *A report on the 2013 (seventh) scheme governance survey*, http://www.thepensionsregulator.gov.uk/docs/governance-survey-report-2013.pdf
[8] The Pensions Regulator (TPR), 2013, *A report on the 2013 (seventh) scheme governance survey*, http://www.thepensionsregulator.gov.uk/docs/governance-survey-report-2013.pdf

that the ABI and its members have done in preparation for the introduction of these committees. The OFT stressed that the implementation of these committees will need careful consideration, particularly given the potential for conflicts of interest and information asymmetry.

21. The OFT also recommended that the key elements of IGCs should be embedded by the Government in a minimum governance standard. The Command Paper published alongside this Impact Assessment will provide clarity on IGCs, ahead of the changes to FCA rules which will introduce the IGCs on a mandatory footing.

22. Some estimated costings of these proposals are included in this document as an interim assessment, ahead of the full cost-benefit analysis that will be published alongside the FCA's consultation on the changes to its rules to introduce IGCs later this year.

23. The Command Paper also includes our proposals for improvements in trust- based governance. These proposals build on the existing regulatory framework and will form the other part of the implementation of the minimum governance standard recommended by the OFT, ensuring that members of both trust and contract- based schemes are protected from weaknesses resulting from the weak buyer side identified by the OFT. These proposals are at a consultation stage and we welcome input from interested parties on the impact of these proposals.

24. As well as looking at scheme quality, the OFT concluded that the weak buyer side of the market and charging complexity combine to reduce market competition on charges. DWP consulted[9] in November 2013 on a series of measures to address high and unfair charges in the default funds of qualifying schemes used for the purposes of automatic enrolment. The Command Paper published alongside this Impact Assessment also includes proposals to address high charges in schemes used for automatic enrolment - which is considered in a separate final stage Impact Assessment. A consistent theme in responses to the charges consultation was the importance of good governance in overseeing that members get a fair deal.

<u>Conclusions from OFT and next steps from Government</u>

25. The OFT study identified significant weaknesses in the buyer side of the DC workplace pensions market and recommended that the Government embed a new minimum governance standard for all workplace pension schemes to mitigate these weaknesses.

26. Based on the evidence presented by the OFT and our own engagement with stakeholders, the Government believes it is better to legislate for minimum governance standards across contract and trust -based schemes to ensure that all individuals automatically enrolled are defaulted into well governed, high quality arrangements. Not only will this help to ensure good outcomes for savers, but it will also help to build confidence in the workplace pensions industry as it grows to deliver a significant increase in the levels of workplace pension saving.

27. The introduction of new minimum governance standards is a crucial element in a package of proposals that the Government is introducing to ensure that all those saving into a

[9] DWP, October 2013, *Better workplace pensions: a consultation on charging*

pension scheme can be confident that they will be in an efficient, high quality scheme. These proposals are set out in full in the Command Paper accompanying this Impact Assessment. This Impact Assessment focuses on the introduction of minimum governance standards across both the trust- based and contract- based areas of the workplace DC market. A separate Impact Assessment accompanying the Command Paper focuses on the introduction of a charge cap.

Policy objectives

28. The policy objective is to ensure that all individuals saving into a workplace pension get value for money and thus enjoy greater income in retirement from private pension sources. A general increase in private pension saving will decrease the burden on the taxpayer of funding state support. The OFT recommended 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 minimum quality standards for DC workplace pensions will address this weakness in the market and improve outcomes for scheme members.

Description of options

29. This Impact Assessment covers two options:

Option 1: Maintaining the status quo (Do nothing), Government continues to work with the Pensions Regulator and the Association of British Insurers to improve governance on a voluntary basis.

30. Under this scenario, the Government would maintain the status quo. The Government would continue to work with TPR and the ABI to improve governance standards on a voluntary basis. Additional quality requirements for DC occupational schemes could be set out in strengthened TPR guidance, without requirements being set in legislation, and ABI members would set up IGCs on a voluntary footing. Members of schemes that do not voluntarily comply with either of these initiatives would not be protected from possible detriment that could result from poorly governed schemes.

31. This approach would likely be of concern to the competition authorities. The Office of Fair Trading provisionally decided to stop short of referring the workplace pensions market to the Competition Commission (see paragraph 7) on the basis that industry and government would work together to address the market failures they identified. Failure to act on their recommendations would increase the risk of a referral to the competition authorities.

32. The OFT concluded that the buyer side of the DC workplace pensions market was one of the weakest they had analysed in recent years and recommended that Government embed a minimum governance standard that would apply to all pension schemes to mitigate the effect of the weak buyer side.

33. This option serves as a baseline option for assessing the impact of the other options considered. For the purposes of the IA, this option therefore has zero costs and benefits (relative to itself).

Option 2: Introduce legislative requirements for new minimum governance standards in DC workplace pensions

34. To address the weaknesses flowing from the weak buyer side of the DC workplace pension market, the OFT recommended that Government should embed a minimum governance standard that would apply to all pension schemes. Building on the standards suggested in the DWP call for evidence on defined contribution quality standards and reflecting the work of the OFT, we propose the following set of minimum quality standards across all schemes:

- All schemes must be overseen by a body with a duty to act in members' interests.
- The governing body must be able to freely exercise its duty to act in members' interests and must be able to explain how any conflicts of interest are handled.
- The majority of individuals – including the chair – of the governing body must be independent of the pension provider.
- The governing body must assess:
    - the design and net performance of default options;
    - standards of administration;
    - charges borne by scheme members; and
    - costs incurred through investment of pension assets.
- The governing body must have – or have access to – all of the resources, knowledge and competencies necessary to properly run the scheme.
- The chair of the governing body must produce an annual report explaining how the quality requirements have been met.

35. The application of minimum standards is considered below, and will entail changes to how many trust and contract -based schemes are currently governed. These standards will improve oversight of workplace schemes. The new structures and practices they introduce will also build the foundations for more sophisticated measures of value for money in the medium and longer terms.

Standards for DC contract-based pension schemes

36. The OFT found that the governance that many providers have put in place on the contract side of the market is often not sufficiently independent and does not always appear to take into account all the key elements of value for money. Building on the good work already underway by the ABI, the Government wants to introduce a requirement that all providers of contract based schemes must have in place an Independent Governance Committee to oversee the value delivered by their workplace schemes.

37. The IGC must have a duty to act in members' interests, applying equally to active and deferred members. The IGC will assess the value offered by the provider's schemes and if it determines that members are not receiving good value for money will make recommendations about any changes needed to the provider. The provider will have a

duty to comply or explain with recommendations received from the IGC. If the IGC is not satisfied with the provider's actions in response to a recommended action, the IGC must have the ability to report this to the Financial Conduct Authority (FCA), and to employers and members of the scheme.

38. In assessing members' value for money offered by the provider's schemes, the IGC must pay particular regard to the following points:
    - whether default strategies are designed in members' interests, and the net performance of default strategies;
    - standards of administration;
    - charges borne by scheme members; and
    - costs incurred through investment of pension assets.

39. The chair of the IGC must provide an annual statement setting out how these governance requirements have been met.

40. The majority of the members of the IGC, including the Chair, must be independent of the pension provider, and there must be arrangements in place for representation of members' interests. The IGC as a whole must have a sufficient level of experience and competence to act in members' interests. The provider must also ensure that the IGC has access to sufficient information and resources to act in members' interests.

41. The FCA will be responsible for overseeing IGCs. The FCA will set out any additional costs associated with this in their cost-benefit analysis which will be published alongside their consultation on the changes to the rules to introduce IGCs.

Standards for DC occupational pension schemes (trust- based schemes)

42. There is evidence that some current requirements on occupational schemes are not being met. The introduction of a chair of trustees, with reporting requirements against the new requirements, is expected to increase compliance with requirements by introducing personal accountability for reporting on these requirements (notwithstanding each individual trustee's personal accountability for ensuring legislation is complied with).

43. As well as requiring each occupational scheme to have a chair of trustees, the proposed new minimum quality standards are that:
    - Default strategies must be designed in the interests of members, with a clear statement of aims, objective and structure and how these are appropriate for their membership.
    - The characteristics and net performance of the default option must be regularly reviewed to ensure alignment with the interests of members, and action taken to make any necessary changes.
    - Core scheme financial transactions must be processed promptly and accurately.
    - Trustees must assess the levels of charges borne by scheme members.
    - Trustees must assess the costs incurred through investment of pension assets.
    - The trustee board must have, or have access to, all of the knowledge and competencies necessary to properly run the scheme.

- Trust deeds and rules must not require trustees to use particular third party service providers, such as investment or administration providers, or to make particular investments.

The chair of trustees must make a statement in their annual report and accounts that explains how they have complied with these requirements.

44. The OFT were concerned by a potential governance failure in small trust based schemes. They were concerned that scheme trustees may not be regularly scrutinising value for money and that in many cases trustees may not have the necessary expertise. Competence of those charged with overseeing the operation of a pension scheme is clearly important. We will therefore expect the Chair's annual report to include a statement about how the trustee board as a whole either has, or has access to, all of the knowledge and competencies necessary to properly run the scheme. This should include assurance that each trustee has met their trustee knowledge and understanding requirements (already set out in regulations and The Pensions Regulator's Code of Practice 7), as well as a broader assessment of the knowledge and competencies across the board as a whole, including access to professional advice. We also expect that the new governance and reporting requirements will in-themselves drive better performance from trustees.

45. Although governance is an issue in some small schemes, the small scheme landscape is a complex one with some small schemes linked to larger employers who operate other schemes or under larger providers, and overall there is considerable consolidation across the market. Consequently, the approach that will be adopted is an increase in non-legislative focus along with assessing the impact of the legislative minimum quality standards on this sub-group of schemes. We think this represents a proportionate approach for small schemes.

46. Under the consultation options there would also be a new requirement that trust deeds and rules must not constrain trustees in relation to choice of service providers, such as investment or administration providers, or require them to make particular investments. This is to address the concern raised by the OFT that some trustees, particularly in Mastertrusts, may be constrained in their ability to fully exercise their fiduciary duty through the ability to move scheme assets to alternative fund managers and administrators where it is in members' interests.

47. In addition to the above standards, Mastertrusts would also have to meet the following requirements:
    - Mastertrust trustee boards must have a majority of members, including the chair, who are independent of the providers of services to the Mastertrust; and
    - there must be arrangements in place for representation of members' interests.

48. The Pensions Regulator will be responsible for monitoring that minimum governance standards in DC occupational pension schemes are met.

Preferred option

49. Our preferred option is option 2 – to act on the OFT's recommendation that Government embeds a minimum governance standard for all pension schemes. Subject to the outcome of the consultation, we would legislate for new minimum requirements in DC occupational

pension schemes and introduce mandatory Independent Governance Committees for providers of contract and bundled trust based schemes via changes to FCA rules.

50. We will be using the Command Paper to engage with stakeholders on the details of our proposals and to gather more information to quantify the costs of these proposals for providers, schemes and employers.

51. We think a proportionate legislative approach is the best option because we want to ensure all scheme members are protected and guaranteed a minimum standard of governance, and that regulators can intervene where members are not being sufficiently protected. This will help to mitigate the buyer side weaknesses in the market and ensure that schemes are being run in members' interests, leading to better outcomes. In addition, without regulatory action there is a risk of a market investigation reference to the Competition Commission. The OFT were clear in their assessment of the DC workplace pensions market that the buyer side was one of the weakest they had analysed in recent years and that action was needed now to embed a minimum governance standard across all pension schemes.

52. We have considered whether non-legislative options – including, for example, strengthening TPR guidance on governance and the voluntary setting up of IGCs by ABI members – would be sufficient to address the risks identified by the OFT. However we have concluded that legislative measures are necessary 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. Whilst we welcome the ABI initiative to set up IGCs, it is essential that we ensure that there are no governance gaps in the market and that everyone can have confidence that they are saving into a well governed scheme. This is especially important given the lack of choice most workplace savers will have about which scheme to save in.

53. Despite the considerable material on good DC governance that already exists the OFT identified a number of schemes where members are at risk of receiving poor value for money. It therefore does not seem likely that adding to this non-compulsory material would sufficiently protect savers, and particularly not to the extent that it could avoid a market investigation reference to the Competition Commission. There has been nothing preventing schemes from improving governance in the past, but as this approach has failed to deliver sufficient improvements, strengthened legislation is now needed to ensure that all savers automatically enrolled into a pension scheme can be confident that they are getting value for money and saving in an efficient, high quality scheme.

54. We will continue to work with The Pensions Regulator, the FCA and the industry on non-regulatory measures such as work on value for money assessments. However, whilst we welcome this work, we think that enshrining additional governance requirements in legislation is the only way to ensure these standards are met by all schemes, providing protection for all members and helping to build confidence in pension saving. This is also in line with the OFT's recommendation for Government to ensure that a minimum governance standard applies to all pension schemes.

Costs and benefits

55. This is a consultation-stage Impact Assessment. It presents an initial assessment of the impacts of minimum governance standards, based on the limited information available to us. There is currently insufficient evidence available to fully quantify the impacts of all our proposals on pension providers and employers. We have used information provided by industry to quantify the majority of the impacts.

56. The Government intends to use the Command Paper to gather the further evidence needed to inform the final Impact Assessment. In particular we intend to explore the extent to which our proposals create *additional* costs over and above existing activity and voluntary commitments and we will test whether the existing data we have on set-up and running costs is reasonable. We will also seek to gather information on the costs of establishing a chair of trustees and the additional costs faced by Mastertrust providers. On IGCs, a full cost-benefit analysis will be published alongside the FCA's consultation on the changes required to its rules to introduce IGCs later this year. As the requirements on contract -based schemes will be made through changes to the FCA's rules, they are out of scope for 'one in two out' purposes.

57. The monetised and non-monetised costs and benefits on key groups are summarised in table 1. Further details and description follow this table. It is important to note that this is not a static comparison of options but a dynamic comparison of how things might evolve under the different options.

Table 1: Summary description of monetised/non monetised costs and benefits

	Employers	Pension Industry	Individuals
Option 1: Do nothing Government to continue to work with the Pensions Regulator and the Association of British Insurers to improve governance on a voluntary basis	*No additional regulatory cost* *Existing requirements on trustees are set out by The Pensions Regulator in its DC Code, and supplemented by non-legislative guidance. This Code is aimed at ensuring trustees are able to perform their functions correctly and competently.* *Strengthened governance requirements could be introduced via TPR guidance, but as these would not be required by legislation these are out of scope.* *Any costs would be met by employers or scheme members, or a combination of the two.*	*No additional regulatory cost* *Providers are working with the ABI to establish IGCs. There are clearly costs associated with this, but as they are voluntary and not required by legislation, these are out of scope.*	*There may be benefits for individuals if the voluntary non-regulatory initiatives lead to improvements in governance.* *There remains a risk that there will be governance gaps in the market for some scheme members or that non-regulatory approaches do not go far enough to improve governance standards so some may see no benefits at all.*
Option 2: Introduce legislative requirements for new minimum governance standards in DC workplace pensions	*Occupational schemes will be required to ensure that their schemes have a chair of trustees and that trustees meet the governance requirements.* *This will lead to some additional cost for schemes that do not have a chair already. These costs will vary and for some will be minimal.* *In addition the cost of meeting the requirement to report on how the quality standards are being met could be anywhere from £600-£5000 per year depending on scheme size. We estimate that the total running costs could between £2.65m- £5.3m per year for trust-based schemes in 2013/14 prices.* *Some schemes will be meeting some of these requirements already, particularly those currently present in TPR's code of practice and guidance. The cost of meeting the quality standards will therefore depend on the extent to which they are already met.* *These costs may be met by employers or scheme members, or a combination of the two.*	*Contract-based providers will be required to set up an IGC which is required to fulfil a number of functions. The estimated cost of an IGC could be up to £200,000 per annum. There would also be initial set-up costs of £40,000-£60,000 for each IGC.The total estimated running costs could be between £2m- £4m per year (in 2013/14 prices).* *The industry is already committed to establishing IGCs in 2014, so the additional cost imposed by the changes in FCA rules will depend on the differences between the ABI model and the requirements in FCA rules and the number of contract-based providers signed-up to the initiative.*	*All scheme members would benefit from good quality independent governance. This would lead to a better alignment of incentives and therefore better value for money and outcomes for individuals.*

Impacts of option 2

Standards for DC workplace personal pensions

Impact on Pension Providers

58. The cost of establishing IGCs would fall directly on insurance -based pension providers. The provider must ensure that the IGC has access to sufficient information and resources to act in members' interests. It is likely there would be some initial set-up costs and then on-going costs to cover salaries, administration, appropriate training, and to undertake the activities necessary to produce an annual report. The pension provider will have a duty to comply or explain with the recommendations received from the IGC so this will also generate a cost.

59. We have received some information from industry representatives which suggest that there may be a one-off cost of establishing an IGC in the region of £40,000- £60,000 to cover recruitment, training and other set-up costs, and that ongoing running costs could be up to £200,000 per annum per IGC in 2013/14 prices. The majority of the ongoing running costs relate to committee member and chair salaries, with a smaller proportion for administration, management information and reporting, expenses and insurance. The running costs are based on internal planning estimates provided by some providers, including drawing on costs of an insurer based Mastertrust.

60. We do not know to what extent some costs are fixed, regardless of the numbers of schemes and members across a provider's book of business, and what costs would be variable. We estimate that there are 15 large providers currently marketing workplace personal pensions, each of whom would need to establish their own IGC. In addition, there will need to be arrangements to oversee smaller providers of schemes for workplace saving as well as providers of workplace personal pensions who may no longer be actively marketing these.

61. The cost of setting up and running an IGC needs to be viewed in the context of the overall size of the pensions market. It is a relatively small amount compared to the assets held by DC- contract- based schemes. The latest estimates show that the total assets held by these schemes is £115bn[10].

62. As the IGCs will be implemented via FCA rules, the FCA will publish a cost-benefit analysis of the IGC requirements when it consults on the changes to its rules. The ABI has already established an initiative to set up IGCs which could reduce the additional cost to providers resulting from our proposed legislative option. The Command Paper published alongside this Impact Assessment is intended to give providers more clarity about what will be required of IGCs in advance of the FCA's consultation on changes to its rules.

63. The costs presented so far in this section should therefore be viewed as upper estimates of the costs for establishing and running IGCs. We know that the market is relatively concentrated amongst a small number of large providers, so based on an assumption of around 20 IGCs, we would expect the total cost of this measure to be up to £4 million per

[10] Lord Freud, 7 January 2014, Column WA291, HL4243, http://www.publications.parliament.uk/pa/ld201314/ldhansrd/text/140107w0002.htm

annum, with a one-off set-up cost of £1m in 2013/14 prices. This is calculated by multiplying the set-up and running costs in paragraph 59 by the number of IGCs to get a total cost to pension providers.

64. However, we know that the ABI is working with its members to establish IGCs on a voluntary footing (option 1). These estimates are therefore an overestimate of the additional cost of the Government's preferred option. Given this, our best estimate of the additional cost is half of this amount. On this basis we would expect the total cost of this measure to be £2 million per annum, with a one-off set-up cost of £0.5m in 2013/14 prices. This reduction takes into account that some of this activity would be happening on a voluntary basis (option 1). We intend to test this assumption as we gather further information following the Command Paper. We would welcome views on whether this is a reasonable adjustment to make to the estimates.

65. Pension providers could respond in a number of ways to the increased costs they face as a result of establishing and running IGCs. Given the costs are small relative to the assets held by pension providers they might simply absorb the cost or cut costs in other parts of their business. Alternatively they may seek to pass on some or all of the costs of setting up and running IGCs to employers or scheme members. However, because the costs are small relative to the size of the provider's overall business this is unlikely to have much impact, if any, on the costs faced by employers or scheme members.

66. The establishment of IGCs will help to build trust and confidence in the pensions industry, benefiting pension providers.

Impact on employers

67. There would be no direct impact on employers if standards for DC workplace personal pension schemes were introduced. The costs of establishing IGCs fall directly on pension providers and represent a fractional increase in their cost base.

Impact on individuals

68. All individuals saving in a DC workplace personal pension will benefit from good quality, independent governance which will lead to a better alignment of incentives. Currently there are 2.7 million members of DC- contract based schemes[11]. The IGC will have a duty to act in members' interests. Better governance should lead to better value for money and better outcomes. The pensions expert Keith Ambachtsheer has used performance and governance quality metrics to describe a "good governance" value of 1% of additional fund return every year, though comments that the true value could be significantly higher[12].

[11] The Pensions Regulator (TPR), *DC trust: a presentation of scheme return data 2013-14*
[12] Keith P Ambachtsheer, 2007, *Pension Revolution: A Solution to the Pensions Crisis*

Standards for DC occupational pension schemes

Impact on employers

69. The direct costs for meeting minimum governance standards in DC occupational schemes will be met either by those employers who have chosen to run an occupational pension scheme, by the scheme, or by a combination of the two.

70. Our proposal is that all occupational schemes must meet new governance requirements, have a chair of trustees, and that the chair must provide an annual report in the audited accounts setting out how the governance requirements in our proposal have been met. We already place requirements on occupational schemes and produce voluntary guidance, so some of what we are proposing will be happening already, but not consistently across schemes.

71. We do not know what proportion of trustee boards currently have a chair though we expect larger schemes will already have a chair. We would expect that boards without a chair would appoint one from amongst the existing trustees. Data from the National Association of Pension Funds on trustee payment shows that trustee salaries range from around £10,000 per annum to £35,000 per annum (£10,120 member-nominated trustee, £21,264 employer nominated trustee, £34,148 independent trustee). However, we are also aware that not all trustees, or trustee chairs, are paid. Given the limited data we have on the existence of chairs and the salary costs, we have not provided any quantification of this element of the proposals at this stage. We intend to gather further information on this and would welcome evidence on the prevalence of chairs and the costs of establishing a chair where one does not exist.

72. The chair will be required to report on how the trustee board has met the governance requirements, including that the board must either have, or have access to, all of the knowledge and competencies necessary to properly run the scheme. This may incur some cost for the employer or scheme if additional training is required. All members of the board are also required to meet the existing Trustee, Knowledge and Understanding requirements. Trustees are already required to meet this, so this should not incur any additional cost.

73. The chair will also be required, in the annual report, to demonstrate that default options are designed in line with the trustees' fiduciary duties, with a clear statement of aims, objective and structure and how these are appropriate for their membership. There is some evidence that schemes are doing this already to some extent, but it is not consistent across all schemes. According to The Pensions Regulator Governance Survey 2013[13], 73% of DC schemes say their default fund has been established principally based on the profile and risk appetite of scheme members.

74. It will also be a requirement that the characteristics and net performance of the default option are regularly reviewed to ensure alignment with the interests of members, and action is taken to make any necessary changes. Again, there is some evidence from the Regulator that some schemes are doing this to some extent already. According to the

[13] The Pensions Regulator (TPR), 2013, *A report on the 2013 (seventh) scheme governance survey*, http://www.thepensionsregulator.gov.uk/docs/governance-survey-report-2013.pdf

Regulator’s 2013 Governance Survey, 53% of DC schemes assess the performance of their investment fund(s) ‘at least annually’; 15% assessed ‘at least once every three years’. 72% tend to agree or strongly agree that the board regularly monitors the scheme’s investment performance.

75. There is some evidence that the activities which we propose to legislate for are already happening, but the picture is inconsistent across schemes. This means the additional costs of introducing new minimum governance requirements in these schemes will vary depending on the performance of the existing governance function. In addition to the possible remuneration cost associated with establishing a chair of trustees where one does not exist, schemes may face costs in meeting the quality standards and in making an annual statement that explains how they have complied with the standards. Industry sources have estimated that the cost of meeting and reporting on all of these requirements could be anywhere between £600 and £5,000 per scheme per annum, depending on the size of the scheme.

76. Based on this information, the overall cost to schemes and employers could be up to £5.3 million per year in 2013/14 prices (see table 2). This is calculated by multiplying the number of schemes in each size category by the estimated annual running cost. Micro schemes are excluded from the calculations as we do not intend the requirements to apply to small self administered schemes. In these cases the members are also typically the trustees so are acting in their own interests.

Table 2: Estimated annual running costs for trust -based schemes in 2013/14 prices

	Number small schemes (12-99 members)	Number medium schemes (100-999 members)	Number large schemes (1000+ members)
	1,790	920	380
Running Cost	£640	£2,500	£5,000
Total	£1,145,600	£2,300,000	£1,900,000

Source: DC Trust: a presentation of scheme return data 2013/14 and DWP estimates

77. We know that some of the activities we propose to legislate for are already happening (option 1), so these estimates are likely to overestimate the additional cost of these measures. Given this, our best estimate of the additional cost is half of this amount. On this basis we would expect the total cost of this measure to be £2.65 million per annum in 2013/14 prices. This reduction takes into account that some of this activity would be happening on a voluntary basis (option 1). We intend to test this assumption as we gather further information following the Command Paper. We would welcome views on whether this is a reasonable adjustment to make to the estimates.

78. Employers and schemes may respond in a number of ways to any increases in cost as a result of these measures. They may absorb the costs in some way, by for example cutting costs in other areas or they might seek to mitigate some of these costs by passing them on to their employees or by increasing prices. However, given the costs are relatively small per scheme, it is unlikely that there would be any substantial impact on prices.

Impact on Pension Providers

79. Mastertrusts will need to meet some specific requirements in addition to having a chair of trustees and producing an annual statement to demonstrate that the governance requirements have been met. The cost of these additional requirements will fall on schemes or on pension providers. Mastertrusts will be required to have the majority of members of the trustee board, including the chair, to be independent of the provider. There must also be arrangements in place for representation of members' interests. These requirements may require some Mastertrusts to recruit new members. We have no information on the likely additional costs this will generate for Mastertrusts and Mastertrust providers. We intend to use the consultation to gather further information to quantify this impact.

Impact on individuals

80. All individuals saving in a DC workplace occupational pension will benefit from good quality governance which will lead to better alignment of incentives. There are currently 2.5 million people saving in DC- trust- based schemes[14]. Better governance should lead to better value for money and better outcomes. The pensions expert Keith Ambachtsheer has used performance and governance quality metrics to describe a "good governance" value of 1% of additional fund return every year, though comments that the true value could be significantly higher[15].

Risks and assumptions

81. There is currently insufficient evidence available to fully quantify the impacts of all our proposals on pension providers and employers. We have used information provided by industry to provide initial estimates of the majority of the impacts. The Government intends to use the Command Paper to gather the further evidence needed to inform the final Impact Assessment.

82. Some quality requirements for DC occupational schemes are already set out in legislation and supported by a TPR code of practice; TPR also produces guidance about further standards which are not required by legislation and ABI members are intending to set up IGCs on a voluntary footing. Our high estimate (in option 2) represents the cost of newly establishing IGCs and the cost of meeting the new DC occupational pension scheme requirements. The high estimate makes no allowance for the fact that some of this activity would be happening already (option 1). In practice, the additional cost of the measures we are proposing is likely to be less than the high estimates set out here as there is voluntary activity underway to improve governance (option 1).

83. We have made an assumption that the additional costs of new legislative requirements would be half of the high estimates in order to make an allowance for activity that would be happening on a voluntary basis (option 1). We intend to test this assumption as we

[14] The Pensions Regulator (TPR), *DC trust: a presentation of scheme return data 2013-14*
[15] Keith P Ambachtsheer, 2007, *Pension Revolution: A Solution to the Pensions Crisis*

gather further information following the publication of the Command Paper. At present it represents our best estimate of the additional cost of these measures.

84. We have assumed that there would be 20 IGCs established to cover all providers under option 2. We will test this assumption with stakeholders following the publication of the Command Paper.

Overall Net Present Value (NPV) of the introduction of minimum governance standards

85. The introduction of minimum governance standards has the potential to benefit large numbers of savers helping to deliver value for money and improving retirement outcomes. It is not possible to quantify the long-run benefits of these proposals to individuals. We will use the publication of the Command Paper to gather evidence on the benefits of these proposals to individuals.

86. At this stage we have been able to provide some quantification of the costs of these proposals based on the limited information that we have. We estimate that the net present value of these proposals is -£40.5m (best estimate) to -£81m (high estimate) in 2013/14 prices, over a ten year period beginning in 2015/16 (see tables 3 and 4). The Government's proposals are built on top of an existing governance and regulatory regime. Although there will be some set-up and ongoing direct costs for employers and pension providers as a consequence of these proposals, some of this will be going on already so does not represent an additional regulatory cost. We expect the additional regulatory cost to employers sponsoring occupational schemes, schemes and the pensions industry to lie somewhere in this range, though we expect them to be at the lower end.

87. At this stage, the Government has insufficient evidence to fully quantify the overall net present value of this measure. We have presented our initial estimate of the costs. The Department will refine the estimate of costs relating to occupational schemes in a final stage Impact Assessment following the Command Paper, once it is has gathered further information on the costs and benefits of these proposals. The FCA will publish a cost-benefit analysis of the proposals relating to contract based schemes when it consults on the changes to its rules to introduce Independent Governance Committees.

88. Based on the evidence presented by the OFT in their DC market study, introducing minimum governance requirements in all pension schemes seems the only reliable way of achieving the Department's objective of ensuring that all individuals saving into a workplace pension get value for money

Table 3: Present value of high estimate costs £m

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Total
IGCs - contract based schemes	5.00	3.86	3.73	3.61	3.49	3.37	3.25	3.14	3.04	2.93	35.43
DC occupational pension schemes	5.30	5.12	4.95	4.78	4.62	4.46	4.31	4.16	4.02	3.89	45.61
Totals	10.30	8.98	8.68	8.39	8.10	7.83	7.56	7.31	7.06	6.82	81.04

Source: DWP estimates
Note: 2015/16 includes one-off IGC set-up costs

Table 4: Present value of best estimate costs £m

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Total
IGCs - contract based schemes	2.5	1.93	1.87	1.80	1.74	1.68	1.63	1.57	1.52	1.47	17.72
DC occupational pension schemes	2.65	2.56	2.47	2.39	2.31	2.23	2.16	2.08	2.01	1.94	22.80
Totals	5.15	4.49	4.34	4.19	4.05	3.91	3.78	3.65	3.53	3.41	40.52

Source: DWP estimates
Note: 2015/16 includes one-off IGC set-up costs

Direct cost to business of the preferred option

89. As outlined in the Impact Assessment, the introduction of minimum governance standards would impose a direct cost on scheme members, employers, and pension providers. The costs of setting up and running of IGCs fall directly on pension providers. However as the new requirements on contract -based schemes will be implemented by changes to the FCA's rules, they are out of scope for one in two out purposes and are therefore not included in our estimate of the business net present value or the equivalent net cost to business.

90. The costs associated with the Government's proposals for DC occupational schemes will be met by employers who have chosen to run an occupational scheme, by the scheme, or by a combination of the two. For the purposes of calculating the impact on business, we have assumed that the cost of the trust- based proposals is split equally between scheme members and the employer. We will gather further information on this assumption following the publication of the Command Paper. Based on our initial estimates, the business net present value is -£11.4m and the equivalent net cost to business of the Government's preferred option, over the default period of 10 years recommended in the Better Regulation Framework Manual, is estimated at £1.02m at this stage.