 Regulatory Policy Committee	Opinion	
Impact Assessment (IA)	Introduction of permissive legislative framework for Defined Ambition pension schemes and removal of statutory indexation for existing Defined Benefit schemes	
Lead Department/Agency	Department for Work and Pensions	
Stage	Consultation	
IA Number	DWP0043	
Origin	Domestic	
Expected date of implementation (and SNR number)	April 2015 (SNR9)	
Date submitted to RPC	14 April 2014	
RPC Opinion date and reference	23 May 2014	RPC13-DWP-1992
Overall Assessment	GREEN	
<p>RPC comments</p> <p>The IA is fit for purpose. The IA explains how the proposals will set up a framework to enable the market to create new risk-sharing pension schemes.</p>		
<p>Background (extracts from IA)</p> <p>What is the problem under consideration? Why is government intervention necessary?</p> <p><i>“The provision of pensions involves financial, economic and longevity risks, all of which come with significant costs. The two models dominating existing provision, Defined Benefit (DB) and Defined Contribution (DC) place all of these risks and associated costs with the sponsoring employer and individual member respectively. Pension scheme designs which allow for these risks to be shared, resulting in less risk placed on any one party, are limited by current pensions legislation. Following extensive consultation and collaboration with industry, Government is intervening to create a legislative framework that enables new types of risk-sharing in pension schemes.”</i></p> <p>What are the policy objectives and the intended effects?</p> <p><i>“The objective is to encourage the pensions market to develop new types of pension provision in the form of Defined Ambition (DA) schemes through explicit recognition of such schemes in legislation and through clarifying the legislative framework for different types of pension schemes (DB, DC and DA). By creating this legislative framework Government intends to encourage a new class of risk-sharing (DA schemes) in order to provide more certainty in terms of retirement outcomes for members than DC schemes and to create greater choice regarding pension scheme design”.</i></p>		
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 proposal explains how Government’s legislative intervention is required in order for it to create the framework which will enable the pensions market to develop new and innovative types of pension provision within the Defined Ambition (DA) schemes. Stakeholders see the current lack of legislative clarity around risk-sharing pension schemes as limiting innovative activity within the market.

The IA states how the proposals affect business with the framework giving the market “*greater choice and flexibility of scheme design*”, (paragraph 33), to take forward and develop new risk-sharing schemes. By creating this space within the legislative framework, employers will be able to offer DA pension schemes to their employees and, then, collectively decide on the choice (and design) of a pension model.

The introduction of the DA framework will produce some costs for employers arising “*from the need for all current schemes to assess how the new definitions apply to them and identify themselves under the new framework*”. However, the Department expects that the proposals will be beneficial overall and states that these “*give employers and employees more choice and flexibility over their pension arrangements*” (paragraph 31).

The Department is, at this stage of the scheme’s development, unable to “*provide reliable information to quantify the costs or benefits of the primary proposals*”, (paragraph 31). This seems a reasonable assessment at this stage. The Department should use the consultation to strengthen this qualitative information, where possible.

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

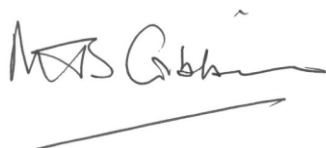
The proposals, as described by the Department, appear to regulate business and, therefore, the SaMBA is applicable. The assessment made within the IA appears to be sufficient at this stage (paragraph 35). The final stage IA would benefit from a fuller assessment on this basis.

Comments on the robustness of the OITO assessment.

At present, the Department sees this as a regulatory proposal, which is in scope of OITO and would have a net benefit to business (an ‘IN’ with ‘Zero Net Cost’).

On the face of it, it is not entirely clear whether the proposal is regulatory or deregulatory. Further clarification will be needed before the Committee can confirm this assessment. This should be provided in the final stage IA.

Signed



Michael Gibbons, Chairman