

Risk warning provision occupational pension schemes

Department for Work and Pensions

RPC rating: validated

Description of proposal

The proposal will require members of occupational pension schemes to be provided with a 'risk warning' before accessing their pension benefits early. This would make existing good practice a statutory requirement. Pension schemes are expected to include the risk warnings within existing communications and use the Pensions Regulator's existing guidance and information.

The proposal will only apply to occupational pensions as Financial Conduct Authority rules already require contract based pensions to provide risk warnings.

Impacts of proposal

The Department uses information provided by the Pensions Regulator to estimate that there are:

- just over 200 insurers, administrators and master trusts providing services to around 1,850 trust-based direct contribution schemes, and to the vast majority of micro-schemes (those with fewer than 11 members); and
- around 1,140 self-administered schemes including 260 trust based direct contribution schemes and 880 hybrid schemes in which members are potentially eligible to access their pension flexibly.

The 1,340 directly affected businesses are expected to face familiarisation costs and transitional costs from amending forms. The Department estimates that updating each form will take two hours in large insurers/administrators, and one hour in self-administered schemes, at a rate of £19.90 per hour (including non-wage labour costs). The number of forms each scheme will be required to change will depend on the products offered. Evidence from the Pensions Regulator suggests that larger firms need to amend forms relating to four options for accessing pensions and the pension statement (£191 for each business), with the smaller schemes on average needing to update two forms and the statement (£57 for each business). The Department's assessment is that these costs will be £105,000.

The Department expects insurers will already be familiar with the Pensions Regulator's guidance and FCA rules, and estimates familiarisation to take 30 minutes per business at a rate of £24.77 per hour (including non-wage labour costs), as this

work is expected to be undertaken at a more senior level than the amending of forms. This would lead to a cost of £17,000.

The RPC validates the estimated equivalent annual net cost to business (EANCB) as zero for reporting purposes. This will be a qualifying regulatory provision that will be reported under the business impact target.

Quality of submission

The validation assessment provides sufficient information to support the validation of the EANCB, to the nearest £100,000, as £0.0 million. The IA would have benefitted from providing further information on the extent to which the estimated costs have been tested with stakeholders or through consultation. However, as the estimates would need to be subject to a very significant margin of error to have an impact on the EANCB, this does not affect the validation of the EANCB figure.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	£0.01 million
Business net present value	Not quantified
Societal net present value	Not quantified

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANCB – RPC validated ¹	£0.0 million
Small and micro business assessment	Not required (low-cost regulation)



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB figures to the nearest £100,000.