

## **Banning commission in occupational pension schemes used in auto-enrolment**

### **Department for Work and Pensions**

**RPC rating: validated**

#### **Description of proposal**

The proposal will ban commission charge arrangements in occupational pensions that qualify for auto-enrolment. Commission arrangements, in relation to the proposal, refer to deductions made from the pension pot of scheme members in order to cover the cost of financial advice or services, procured by the pension provider, without the member having the ability to choose whether or not to pay for such services.

The ban will not prevent advisers from offering alternate services. It will only prevent the blanket charging of scheme members for the costs of these services via an administration charge. Employers will be able to pay advisers directly for advice or services and scheme members can pay advisers for advice or services via their fund, where they specifically elect to do so. The ban will only apply to schemes used for auto-enrolment.

#### **Impacts of proposal**

The proposal will mean new commission arrangements cannot be started and existing arrangements will need to end.

The most significant effect will be on financial advisers, as a result of the ending of existing arrangements. Using evidence from the consultation and industry feedback from the *Pension Charges Survey 2015*, the Department estimates that commission arrangements result in a charge of £58 each year, per member, with around 20,000 members in schemes that incorporate commission charges. Banning such charges is expected to result in an ongoing cost to financial advisers of £1.16 million each year.

Financial advisers will be able to offset some of these costs by moving to other arrangements, such as charging scheme members for advice, or will result in transfers between different financial advisers. However, the Department's assessment is that it is not possible to quantify robustly these expected benefits and, as such, they are not included in the IA.

The cost to financial advisers of banning new arrangements is expected to be negligible. Evidence suggests that the incidence of new arrangements that include a commission has been declining and commission arrangements are not used at all by the majority of schemes/providers. The Department does not, therefore, expect the proposal to have a quantifiable marginal effect on the use of commission under the new arrangements.

The proposal will require service providers and trustees to ensure that auto-enrolment pension schemes do not result in members bearing the cost of commission. For these businesses, this will result in familiarisation and, in relation to ending existing arrangements, administration costs. These one-off costs are expected to be low – in total, around £0.05 million for service providers and £0.03 million for trustees. These estimates are reasonable.

The RPC is able to validate the estimated equivalent annual net cost to business (EANCB) of £1.12 million.

### **Quality of submission**

The Department's assessment is that the net cost of the proposal is likely to be lower than the EANCB of £1.12 million. The IA discusses the difficulties in monetising the extent to which businesses or scheme members will continue to pay for services from financial advisers through other, more transparent, arrangements following the ban. Evidence from industry suggests that alternate models and businesses are already being established to take on this work. The Department has not, however, been able to gather sufficient information to enable a robust assessment of the value of the business that will be renegotiated or transferred to alternate financial advice providers. The IA recognises that there *"is a possibility that employers or members may be less likely to take advice if they face upfront costs as opposed to commission arrangements, but no evidence available to quantify this risk"*. The IA, therefore presents a maximum cost, while noting that the overall effect of auto-enrolment is expected to result in an increase in the use of financial advice services.

The IA discusses the findings of an Office of Fair Trading market study that highlighted, for some existing arrangements, pension scheme *"members could pay commission without realising"*, and the IA highlights that offsetting the cost to financial advisers is a benefit to scheme members. While acknowledging the approach relies on some simplifying assumptions, the Department's assessment is that any loss of income to financial advisers would result in an equal transfer to pension members in the form of larger pension pots.

### Small and micro business assessment

As a fast track proposal a small and micro business assessment is not required. As, however, a significant proportion of financial advisers are likely to be small and micro businesses, the IA could have been improved by providing information on the composition of the financial advice sector.

### Initial departmental assessment

Classification	IN
Equivalent annual net cost to business (EANCB)	£1.12 million
Business net present value	-£10.11 million
Societal net present value	-£0.13 million

### RPC assessment

Classification	Qualifying regulatory provision
Small and micro business assessment	Not required (fast track low-cost regulation)



**Michael Gibbons CBE**, Chairman