Pension Dashboards

Department for Work and Pensions

RPC rating: fit for purpose

Description of proposal

The proposal develops a new ‘pensions dashboard ecosystem’ which will enable citizens to securely access all their pension information online (including the state pension, public and private pension schemes), all in one place. The Department expects that a dashboard will enable individual control of pensions, raise awareness of the pensions landscape and options generally, and reconnect individuals with lost pension pots. Overall, it aims to enable more informed choices by savers.

This proposal is in the context of significant reform of the pensions system in recent years, including automatic enrolment, multiple pension pots and a shift to employees rather than employers making decisions via Defined Contribution (DC) pensions. The Department considers that there is a risk in the current arrangements that individuals face information failures and behavioural biases that then causes poorer retirement outcomes.

The Government will use primary legislation to compel pension providers to provide information for this dashboard. The actual design of the dashboard system, including the information required, will be set out in subsequent secondary legislation.

The impact assessment (IA) considers three options for these requirements. Option 0 is do nothing. Option 1 is a non-legislative approach, where the Government promotes and facilitates stakeholder coordination to develop industry-led pensions dashboards. The Department deem both these options as insufficient as it does not believe the market will invest in developing a solution that delivers universal, free access to complete pension information, given that some pension providers might choose to opt out. Option 2 is to introduce legislation to create an industry-wide pensions dashboard, and this option is the Government’s preferred option.

Impacts of proposal

Under the current pensions landscape all DC members and some Defined Benefit (DB) members should receive an Annual Benefits Statement (ABS) for each individual pension membership. Since 2016, individuals have been able to use 'Check Your State Pension' to forecast their future state pension entitlement. The Government also funds the Pension Tracing Service; however, this service still necessitates individuals to spend time contacting pension schemes to retrieve their pension information. Therefore, it is not currently possible for individuals to access all their pension information in one place. The IA outlines adverse consequences for individuals having low understanding of their own pension information (paragraph 6, page 8). Complete information on an individual's pension is considered a merit good and the Department explain the proposal should enable consumers to keep track of multiple pension pots which, in turn, should help them make better decisions about retirement saving.

The proposal will require pension schemes and providers to provide data to the dashboard ecosystem, which will impose a new regulatory burden on the pensions industry. The Department have used formal consultation and informal engagement with the pensions industry to seek advice on potential costs and benefits. The Government intends that the Single Financial Guidance Body (SFGB) should bring together an industry delivery group to lead the design and implementation of the dashboard ecosystem. This IA provides indicative costs for familiarisation, one-off implementation costs and ongoing costs for this proposal. These illustrative impacts in the IA are compared against a counterfactual where the market will not deliver an industry-wide pensions dashboard solution. Paragraph 26 of the IA describes the factors that the impacts of the proposal will depend upon: data standards, scheme exemptions, implementation plan, regulatory framework, responsibility for regulatory functions and funding model.

Impact on pensions industry

Familiarisation costs. The IA states that all schemes in scope of this proposal will face one-off costs for familiarising with the new legislation. This is estimated at about £2.3 million in the first year – resulting from two trustees of each scheme spending one hour to familiarise with the new legislation.

The Department envisage that providing data to the dashboard ecosystem will involve several component costs such as: ensuring the data are accurate, enabling data to be accessed via dashboards and ongoing data provisions. The IA considers three scenarios to illustrate the mechanisms through which a dashboard could lead to costs and benefits for different groups.

Scenario 1 – micro schemes exempt (central scenario).

The IA mentions engagement with industry stakeholders, which suggests the way schemes connect to the dashboard ecosystem, and associated costs, varies by scheme size. In this central scenario, the dashboard information is equivalent to information provided in the ABS, and pension schemes with fewer than twelve members are considered exempt.

The IA also assumes large and medium pension providers and administrators will either invest in new systems or upgrade existing systems in order to connect to a dashboard, which incurs IT costs to integrate with the dashboard system. The IA also mentions establishing an ‘Application Programming Interface’, which allows an external system such as a dashboard to access data held by schemes. Small schemes (12-99 members) are assumed to integrate to the dashboard ecosystem using contracted relationships.

Implementation costs. The IA provides an illustrative range of implementation costs, the assumptions and current evidence linked to each cost in table 1 on pages 14-15. The central cost is estimated as £12 million for large pension schemes (over 100,000 members), £229 million for medium schemes (100-99,999 members), and £30 million for small schemes (12-99 members). The IA applies sensitivity adjustments on these estimates in table 1 and assumes at this stage that all schemes are required to comply with the legislation at the same time. However, the timing of costs will depend on the implementation plan which will be set out in secondary legislation.

Additional costs. The IA considers the possibility of some schemes incurring additional costs to clean members’ data prior to making it available via a dashboard. However, the IA states that this additional cost will not be new, as data cleansing is already considered in The Pensions’ Regulator’s data sources and data improvement plans.

The IA notes there will be additional costs for public and private sector DB schemes because private sector schemes are not required to supply an ABS to members unless the individual requests it, and public sector schemes are only required to provide an ABS to deferred members on request. The IA estimates that currently 75 per cent of DB schemes send out an ABS. It is estimated that the costs of cleansing data could be up to 20 per cent higher for those schemes which currently do not send an ABS to their members. However, an EU directive[1] contains a requirement to supply an ABS to members – data is required to be in a good condition to fulfil these requirements. Therefore, the Department consider data cleansing costs to all schemes as part of the improvements required to comply with the EU directive.

Ongoing costs. The IA mentions expected ongoing costs of updating and maintaining the data sent to the dashboard. The Department estimate an ongoing cost of around £475 million over the ten-year appraisal period. However, the IA notes that despite industry engagement, this estimate remains highly uncertain and should be treated as purely indicative. Paragraph 41 of the IA also provides a range of expected ongoing costs after applying sensitives.

Scenario 2 – no exemptions.

This scenario considers the additional costs (compared to scenario 1) to the pensions industry with no exemption for micro schemes. Implementation costs are estimated to increase by £331 million should micro schemes be included (table 2, page 17). The Department also note consultation suggests that "the costs to include micro schemes may be disproportionate to the benefit from the very small increase in coverage" (paragraph 42, page 16).

Scenario 3 – data requirements above ABS.

The IA states that in this scenario where schemes are required to produce information that is currently not included in an ABS, would cause a significant increase in costs. Given the lack of clarity of what this additional information could be, the Department have not provided cost estimates in this scenario.

Other impacts in central scenario.

Costs to business to create the industry delivery group and regulating dashboards. The IA states that in consultation the Government proposed an industry delivery group funded by the pensions industry will be responsible for governance of dashboards infrastructure, procuring a pension finder service, and

[1] Implementation of EU regulations compelling all schemes to supply an ABS (IORPII directive).

establishing an implementation plan. The IA notes that the delivery group could be funded by industry levies – which could be passed on to members via charges. Similarly, the Department expect authorisation and regulation of dashboards will be funded through levies. The Department will monetise and include these costs at the point of secondary legislation.

Costs to Government and public sector schemes*.* Government intends to supply State Pension information via dashboards and the Department will calculate the associated costs of supplying information into dashboards once decisions on the dashboard requirements and implementation plans are confirmed. The IA also estimates familiarisation costs for public sector schemes in table 3 (page 20), which is consistent with the methodology applied to private sector schemes.

Benefits to consumers*.* The IA explains that the main purpose of the proposal is to provide benefits to scheme members who will be able access all their pension information. This is perceived to lead to direct benefits to consumers arising from time savings and recovering lost pension pots (paragraph 30, page 12). The IA outlines possible indirect benefits to individuals resulting from the correcting information failure.

The IA also discusses other non-monetised impacts through pages 18-19 in the IA: the costs of creating a non-commercial dashboard, the impacts to providers resulting from member contacts and the impact on the financial advice market.

Quality of submission

The IA sets out the rationale for intervention and explains the different options, including the baseline “do nothing” option. The Department provide a mainly qualitative indication of the likely scale of impacts and are unable to provide a robust assessment in order to validate an EANDCB figure. This is because the level of detail currently available on the expected content of related secondary legislation is insufficient to enable assessment of a robust EANDCB figure at this stage. The RPC looks forward to the Department’s submission at that stage, with a view to validating an EANDCB figure for Business Impact Target (BIT) purposes.

The IA is fit for purpose at this primary legislation stage. The IA is well-written and easy to understand and the gaps in knowledge, and resultant assumptions, are clearly described. The areas outlined below would need to be addressed when the Department considers IAs at the secondary legislation stage.

Level of impact. The Department have discussed potential costs and benefits in a qualitative capacity throughout the IA, which is proportionate for the purpose of this primary legislation. Given that the level of impact of the proposal is likely to be high, the RPC would expect a quantitative assessment of all the impacts outlined in this IA when the Department considers IAs at the secondary stage. When established, the industry delivery group could provide useful evidence in informing a quantitative assessment. The IA would also benefit from a discussing any potential indirect costs resulting from the proposal.

Additional familiarisation costs. The IA outlines that all schemes in scope of this proposal will face one-off costs for familiarising with the new legislation. The IA would benefit from considering any possible additional familiarisation costs which could arise with the proposal. For example, quantifying possible additional one-off costs to pension providers, administrators or ISPs when familiarising with the dashboard requirements.

International comparison. There is some indirect discussion in the IA of other countries' experiences of pensions dashboards/ecosystems. This discussion could be extended by including analysis of non-pensions-related dashboards or general consumer-facing systems. This could help with cost implications by providing indicative cost estimates to implement similar systems and identify any risks.

Levy uncertainty. The Department explain that the potential delivery model which includes the creation of a delivery group, would be funded by industry levies. Although levy costs are not a regulatory provision within scope of the BIT, the IA mentions that levy costs could affect industry costs, and that these may be passed on to scheme members. The IA would benefit from a further discussion around to what extent levies could affect industry costs when more details about implementation plans are known.

Wider consideration. The IA states the proposal will enable 'citizens' to securely access all their pension information online. The IA should clarify whether the citizenship of a scheme member will impact their ability to access their pension information.

Unintended consequences. The IA discusses how there could be indirect adverse impacts resulting from the proposal. For example, if individuals choose to consolidate multiple pots as a result of accessing the dashboard, which could result in all their assets being in a scheme with poor returns or the behavioural biases outlined in paragraph 69, which could lead to worse retirement outcomes. The IA would benefit from elaborating more on the likelihood of these outcomes and discuss any safeguards which could be put in place to prevent these outcomes. The IA also mentions that impacts upon protected characteristics will be explored in an Equality Impact Assessment – this IA would benefit from outlining some of these impacts as part of the unintended consequences discussion.

Small and micro business assessment (SaMBA). The IA states that the costs to business fall on pension schemes and pension providers, and that small and micro pension schemes may be affected, which may be sponsored by small or micro businesses. The Department explain why assessing the impact of dashboards on small and micro businesses is difficult; *"it is not necessary that small and micro pension schemes correspond to small and micro businesses"* (paragraph 62, page 21). In the central scenario, small schemes are assumed to integrate to the dashboard ecosystem using contracted relationships. Large and medium pension providers will either invest in new systems or upgrade existing systems in order to connect to a dashboard. The Department will need to set out these potentially asymmetric costs in detail at secondary legislation. This would help the Department to discuss whether or not small and micro businesses are able to benefit from the measure as much as larger businesses. For example, this may include evaluating cost mitigation options for smaller schemes or evaluating variations of the policy proposal in general, which might better help small and micro businesses to benefit from the measure. The IA does recognise this as a key consideration for the industry delivery group: *"a key unintended consequence to consider is the affordability, especially for smaller schemes, to ensure schemes and businesses do not become unable to afford any regulatory burdens imposed"* (paragraph 71, page 23).

The Department also explain that the correlation between small and micro businesses and where they fall in the pensions industry is being analysed as part of policy development. The RPC welcomes the Department's commitment to exploring this further in informing decisions around exemptions at secondary legislation. The SaMBA would be improved from analysing the impact on small and micro businesses from three perspectives: the impact on pension providers/administrators, sponsoring employers and pension schemes. This would enable the Department to robustly assess the impact on all small and micro businesses that would be affected by the proposal. A thorough evidence base could be established during the Department's consultation for the secondary legislation. This could help the Department improve their analysis in the SaMBA and the overall analysis for this measure.

Monitoring and evaluation plan. The IA would benefit from a proportionate consideration of how the proposed legislative framework will be monitored and evaluated. The Department will need to outline its plans for monitoring impacts of the proposal after the legislative framework has been established which is particularly important given the large impact of the proposal. This could also help the Department in identifying and managing any unintended consequences.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	Not provided at this stage
Business net present value	Not provided at this stage
Societal net present value	Not provided at this stage

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANDCB – RPC validated	A further (update to the present) IA to be submitted at the secondary legislation stage for validation of an EANDCB figure
Small and micro business assessment	Sufficient at this stage

Regulatory Policy Committee