Department for Work & Pensions	**Impact Assessment (Consultation)**	
Title of measure		Broadening Investment in Illiquid Assets
Lead Department/Agency		Department for Work & Pensions
Planned coming into force /implementation date		6 April 2023
Origin (Domestic/EU/Regulator)		Domestic
Policy lead		Sam Haylen, Vicky Bird
Lead analyst		Lucy Page
Departmental Assessment		Self-certified
Total Net Present Social Value (over 10year period): -£20.0m	**Equivalent Annual Net Direct Cost to Business (EANDCB) over 10 year period: £2.3m**	**Business Impact Status:** Non-Qualifying Regulatory Provision
Summary - Intervention and impacts		

Policy Background and Issue

Following HMT's Patient Capital Review of November 2017[1], the Government has been keen to find ways to facilitate greater diversification in investment by UK institutional investors, particularly pension schemes. DWP consulted in February 2019[2] on proposals to facilitate investment by Defined Contribution (DC) schemes in less liquid assets, such as smaller and medium sized unlisted firms, housing, green energy projects and other infrastructure[3].

DWP is now moving forward with the 2019 proposals and introducing requirements for relevant occupational DC schemes to report their policies on illiquid investment and to publicly disclose their asset allocations in their annual Chair's Statement. For most DC schemes with 12 or more members, the proposed regulations will require them to report their policy on illiquid investments in their default Statement of Investment Principles (SIP) and disclose the allocation of assets in their default funds. As Collective Money Purchase (CMP) schemes do not have default funds, they will be required to report their policy on illiquid assets in their main SIP. This requirement will only apply to CMP schemes with 100 or more members, as smaller schemes are not required to produce a main SIP. CMP schemes with 12 or more members will be required to disclose the allocation of assets held in the scheme as a whole.

1 Patient Capital Review – https://www.gov.uk/government/publications/patient-capital-review
2 Investment Innovation and Future Consolidation: A Consultation on the Consideration of Illiquid Assets and the Development of Scale in Occupational Defined Contribution schemes - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/776181/consultation-investment-innovation-and-future-consolidation.pdf
3 Investment Innovation and Future Consolidation: A Consultation on the Consideration of Illiquid Assets and the Development of Scale in Occupational Defined Contribution schemes - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/776181/consultation-investment-innovation-and-future-consolidation.pdf

In the last few years, there has been a noticeable increase in DC schemes' considerations[4] of the benefits that may arise from a more diversified investment strategy. However, the Government believes that more can be done to demonstrate to trustees that illiquid assets are an important part of this diversification and should be seriously considered as they could potentially provide members with higher net returns[5].

Rationale for Intervention

Pension savers often have limited access to important information on their retirement savings, such as where their money is being invested. If they wish to obtain information about asset allocations and policies on investment in illiquid assets, they may be required to request this information from their provider, leading to an asymmetric information market failure and lack of transparency in the market.

Employees are enrolled in pension schemes by their employers. This creates a principal agent problem within the market, as there is uncertainty employees will be enrolled in a scheme that aligns with their best interests. The disclosure of schemes' illiquid policies and asset allocations will improve the availability of information to members and employers and provide them with certainty that trustees are giving proper consideration to the full range of investment opportunities on offer, fulfilling trustees' fiduciary duty requirements to create an investment approach that aligns with members' best interests.

Government intervention is necessary as it is currently estimated less than 2 percent of the schemes in scope for asset allocation disclosures currently report this data in the proposed standardised format voluntarily[6], emphasising the lack of comparable and consistent information available to most members and employers which will likely continue if the government chooses not to intervene.

Intended Effects

The intended effect is to encourage greater competition, transparency, accountability and innovation based on overall value for money in the DC market. If the disclosure of asset allocations and illiquid investment policies becomes a standardised disclosure across industry, members, employers and investment consultants could compare this information with other providers as part of their holistic assessment for value for money. This could benefit members of pension schemes in scope through further portfolio diversification, reducing risk of concentration in a narrow range of asset classes and targeting investment opportunities that could potentially bring members higher returns.

Brief description of viable policy options considered (including alternatives to regulation)

Policy Option 0: Do nothing.

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[4] Pensions Expert: DC schemes target private markets - https://www.pensions-expert.com/Investment/DC-schemes-target-private-markets-as-room-for-illiquid-assets-increases?ct=true

[5] A Roadmap for Increasing Productive Finance Investment https://www.bankofengland.co.uk/-/media/boe/files/report/2021/roadmap-for-increasing-productive-finance-investment.pdf?la=en&hash=F92ADDFB1B815895AAFCC21CE6A29C5B0A74D6B

[6] Corporate Adviser's Master Trust & GPP's Defaults Report 2022 https://corporate-adviser.com/research/

Currently, we estimate that less than 2 percent of schemes in scope for asset allocation disclosures voluntarily report some of this data. As disclosure is not currently uniform, it is difficult for employers to compare offerings across schemes, but more importantly for members to compare across the various pots that they may hold.

By doing nothing, trustees may not be having the conversations needed to fully consider all investment opportunities available or understand the benefits and value that illiquid assets could bring to their portfolios and there will continue to be a lack of information available to most members. Where trustees are having these conversations already, they may not be making their members aware of them. Allowing this to continue would mean that only the members in the minority of schemes that do publish this information may be aware of it.

Policy Option 1: Amend the Scheme Investment and Scheme Administration regulations to introduce new disclosure requirements – Preferred Option

This option involves requiring all relevant DC schemes in scope to disclose and explain their policies on illiquid investment and their asset allocations.

Requiring schemes to disclose this information directly to members and employers either through their Chair's Statement or SIPs will result in members and employers being provided extra information they need to understand how their pension is being invested, the impact these decisions could have on their retirement outcomes and that their trustees are giving consideration to the full range of investment opportunities on offer. This requirement also allows for greater transparency and standardisation of reporting across the DC market, allowing employers to better compare the value between DC schemes when choosing where to automatically enrol their employees.

Policy Option 2: Mandating investment in illiquid assets

Some industry stakeholders have advocated for government to adopt a stronger position on exploration of illiquid assets. They cite "comply or explain" – requiring pension schemes to allocate a certain percentage of total assets towards private markets or explain to regulators why they choose not to – as the approach they believe should be implemented. Any attempt to force private pension schemes to invest in specific asset classes or sectors may result in a market distortion, lead to poorer returns for DC scheme members and cut across both the fiduciary duty to which trustees must adhere and the independence of pension scheme trustees from government policy objectives. By requiring disclosure of investment policies and asset allocations without mandating specific allocations, we can encourage greater transparency, diversification and competition across industry without having to intervene in independent investment decisions that should only be taken by trustees.

Policy Option 3 and 4: Alternative to legislations – Guidance only

As an alternative to legislation, DWP could either:

1. Produce non-statutory guidance recommending that trustees voluntarily provide this information to their members, less than 2 percent of schemes already do, or
2. Ask that The Pensions Regulator (TPR) provides updated guidance to trustees including that they should voluntarily publicly disclose their policies on illiquid investment and their default asset allocations. This would be subject to TPR agreement.

Experience has shown that unless a duty is contained in legislation, with consequential actions for non-compliance, a certain degree of non-compliance exists in adhering to non-regulatory measures and could lead to inconsistency in approaches and coverage giving employers and members an incomplete picture[7]. This therefore indicates that further action is required.

Preferred option: Summary of assessment of impact on business and other main affected groups

Impact on Business

Amendment to the Scheme Investment regulations

As a result of the amendment to the Scheme Investment regulations, the relevant schemes in scope (occupational DC trust schemes with 12 or more members, including hybrids and Collective Money Purchase (CMP) schemes with 100 or more members), henceforth 'relevant schemes', will be impacted in the following ways:

- One-off familiarisation cost to trustees of 'relevant schemes' to read and understand the change in regulations and accompanying guidance.
- One-off cost to 'relevant schemes' to produce an initial explanatory statement on their policy towards investment in illiquid assets.
- Ongoing cost to 'relevant schemes' to update their explanatory statement in their Statement of Investment Principles at least every three years.

Introducing new asset allocation disclosure regulations

As a result of the new asset allocation disclosure regulations, the relevant schemes in scope (occupational DC trust schemes with 12 or more members, including hybrids and CMP schemes), henceforth 'relevant schemes', will be impacted in the following ways:

- One-off familiarisation cost to trustees of 'relevant schemes' to read and understand the change in regulations and accompanying guidance.
- One-off cost to 'relevant schemes' to produce asset allocation breakdowns and information in the Chair's Statement.
- Ongoing cost to 'relevant schemes' to update their asset allocation breakdowns and information in their Chair's Statement annually.

Impact on Regulators

The Pensions Regulator (TPR) is responsible for monitoring compliance with existing Statement of Investment Principles regulations and will be responsible for monitoring compliance with new asset allocation disclosure regulations. TPR will be impacted in the following ways:

- One-off set up cost for TPR to read and understand updated and new regulations and update their guidance to trustees.
- Ongoing cost to monitor compliance with regulations and identify non-compliance and take enforcement action where necessary.

Impact on Members and Employers

As a result of the regulations, members and employers of 'relevant schemes' will be impacted in the following ways:

[7] Report of findings on the 2020 DC trust based pension schemes survey - (Figure 3.1.2) https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dc-trust-based-pension-schemes-research-report-2020.ashx

• Members and employers will benefit from an increase in the information they receive on how their and their employees' pension fund is invested. • Any changes in asset allocations by 'relevant schemes' as a result of developing a new policy on illiquid assets may potentially increase diversification of assets and greater returns on investment for members. However, this is not a direct result of policy proposals. This is dependent on schemes taking action and changing their investment policies, in response to proposals.
Departmental Policy signoff (SCS): Jo Gibson Date: 12/12/2022 Economist signoff (senior analyst): Andrew Ward Date: 08/12/2022 Better Regulation Unit signoff: Prabhavati Mistry Date: 08/12/2022

Additional detail – policy, analysis, and impacts

Policy options considered, including alternatives to regulation

Policy Option 0: Do Nothing

1. Currently, we estimate less than 2 percent of schemes in scope for asset allocation disclosures have voluntarily reported their asset allocations in the proposed format[8].
2. As disclosure is not currently uniform, it is difficult for employers to compare offerings across schemes, but more importantly for members to compare across the various pots they may hold. It is broadly agreed that members should have the opportunity to better engage with their pension, understand how their money is invested and be aware of any pertinent information about their pensions.
3. Experience has shown that industry rarely complies with non-regulatory measures. If we do nothing, trustees will not be having the conversations needed to fully consider all investment opportunities available or understand the benefits and value that illiquid assets could bring to their portfolios.

Policy Option 1: Amend the Statement of Investment Principles regulations and introduce new asset allocation disclosure regulations (Preferred Option)

4. This option involves requiring 'relevant schemes' in scope to disclose and explain their policies on illiquid investment in their SIP and their asset allocations.
5. We believe all pension savers have the right to easily access this information, and if disclosed in a clear and consistent manner, this would improve their understanding of the concept of illiquid investment (explanation would be a part of the SIP policy disclosure requirement), and the potential risks and benefits it could bring to their overall pension savings. We are looking to develop a standardised and accessible disclosure requirement to encourage

[8] Corporate Adviser's Master Trust & GPP's Defaults Report 2022
https://corporate-adviser.com/research/

all schemes to regularly provide the same, clear data to employers and members so they can understand where their pension is being invested and the value they are receiving.

6. Requiring schemes to provide this information directly to members through their Chair's Statements and SIPs will result in members getting all the information they need without having to make individual requests. It also gives members the certainty their trustees are giving proper consideration to the full range of investment opportunities on offer.
7. This will not automatically increase investment in illiquid assets, but we expect it to further educate trustees, increase conversations around investment in productive finance, and potentially change the culture of DC investment towards focussing on overall value and returns to members, rather than just cost.

Policy Option 2: Mandating investment in illiquid assets

8. Some industry stakeholders have advocated for government to adopt a stronger position on exploration of illiquid assets. They cite "comply or explain" – requiring pension schemes to allocate a certain percentage of total assets towards private markets or explain to regulators why they choose not to – as the approach they believe should be implemented.
9. This pressure was referenced in the joint letter issued by the then Chancellor and the Prime Minister calling for an 'Investment Big Bang'[9]. The letter acknowledges that "choosing which assets to invest in to secure the best outcomes remains a matter for pension fund trustees, and other custodians of institutional capital."
10. Any attempt to force private pension schemes to invest in specific asset classes or sectors may result in a market distortion, poorer returns for DC scheme members and would cut across the fiduciary duty to which trustees must adhere and the independence of pension scheme trustees from government policy objectives. By requiring disclosure of investment policies and asset allocations without mandating specific allocations, we can encourage greater transparency, diversification, and competition across industry without having to intervene in independent investment decisions that should only be taken by trustees.

Policy Option 3 and 4: Alternatives to legislation

11. As an alternative to legislation, DWP could either:
    1) Produce non-statutory guidance recommending that trustees voluntarily provide this information to their members, as less than 2 percent of schemes already do, or

[9] A challenge letter from the Prime Minister and Chancellor to the UK's institutional investors https://www.gov.uk/government/publications/a-challenge-letter-from-the-prime-minister-and-chancellor-to-the-uks-institutional-investors

2) Ask that TPR provides updated guidance to trustees including that they should voluntarily publicly disclose their policies on illiquid investment and their default asset allocations. This would be subject to TPR agreement.

12. Experience has shown that unless a duty is contained in legislation, with consequential actions for non-compliance, a certain degree of non-compliance exists in adhering to non-regulatory measures and could lead to inconsistency in approaches and coverage giving employers and members an incomplete picture[10]. This therefore indicates that further action is required.

<u>Preferred Option – Amend the Statement of Investment Principles regulations and introduce new asset allocation disclosure regulations</u>

Evidence behind the rationale for intervention

13. Less liquid assets have the potential to offer members higher net returns in the long-term, especially within a diversified portfolio that balances risk with opportunity[11][12][13]. They can also facilitate investment in key areas such as housing, infrastructure, environmental protection, and growth companies that lift the economy[14].
14. We are therefore proposing to require schemes to disclose their policy on investment in illiquid assets and for schemes to publicly disclose their asset allocations.
15. We are not requiring trustees or investment managers to change their asset allocation as a result of new regulatory requirements, but rather to reflect on the decisions they have already made, and the decisions they will make, as part of their ongoing fiduciary duty to create an investment approach that works for members.
16. Low risk, passive investment in index trackers and other low-cost assets has led to good, stable returns for DC schemes for at least a decade[15] but this will not necessarily continue into the future[16]. We believe these policy proposals find a good balance between protecting trustees' fiduciary duty whilst

[10] Report of findings on the 2020 DC trust based pension schemes survey (Figure 3.1.2) https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dc-trust-based-pension-schemes-research-report-2020.ashx
[11] Corporate Adviser Master Trust and GPP Defaults Report 2019 https://corporate-adviser.com/research/
[12] Government Actuary's Department Investment News December 2016 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/575842/Nov_2016_update.pdf
[13] A Roadmap for Increasing Productive Finance https://www.bankofengland.co.uk/-/media/boe/files/report/2021/roadmap-for-increasing-productive-finance-investment.pdf?la=en&hash=F92ADDFB1B815895AAFCC21CE6A29C5B0A74D6B
[14] Investing in Britain's future: Financing and funding infrastructure after the Coronavirus crisis https://www.smf.co.uk/wp-content/uploads/2020/06/Investing-in-Britains-future-June-2020.pdf
[15] Defined Contribution: A brave new world https://www.portfolio-institutional.co.uk/features/defined-contribution-a-brave-new-world/
[16] Corporate Adviser's Master Trust & GPP's Defaults Report 2022 Chapter 3 https://corporate-adviser.com/research/

encouraging trustees to have more focussed discussions about assets that could bring better retirement outcomes to members as well as benefits to innovative sectors of the UK economy, regardless of their cost.

17. These measures also seek to encourage greater competition and innovation based on overall value for money in the DC market. If asset allocation becomes a standardised disclosure across industry, members, employers and investment consultants could compare a scheme's allocation alongside other key metrics, including net investment returns, costs and charges, and quality of service to make sure they are getting the best value possible. This will become a key component of the value for money framework we are creating with the FCA and TPR.

Costs to businesses of preferred option

Counterfactual

18. The counterfactual is the "do nothing" option. The counterfactual assumes that no schemes are currently disclosing their policy on illiquid asset, and less than 2 percent of schemes disclose their asset allocation breakdowns in the proposed format.
19. Given the large number of schemes in scope of both measures, it is considered disproportionate to check the Chair's Statement and Statement of Investment Principles of each scheme to confirm this counterfactual. We expect the counterfactual holds for the majority of schemes in scope based on our review of available information from the largest occupational DC trust pension schemes.
20. The size of impacts to business will vary from scheme to scheme. The impact will depend on factors including the investment consultancy used by each scheme, any potential economies of scale and the extent of changes required compared to scheme's current practices.
21. 'Relevant schemes' in scope of Illiquid statement policy proposals who already have an illiquid asset investment policy may experience lower costs from the new regulations, relative to schemes without an existing policy on illiquid asset investment.
22. 'Relevant schemes' in scope of asset allocation disclosure policy proposals who already disclose their asset allocations in industry publications[17] may experience lower costs from the new regulations relative to schemes who do not already disclose this information.

<u>Costs to Pension Schemes in Scope</u>

23. For the amendment to the Scheme Investment regulations, all 'relevant schemes' will have to disclose and explain their asset allocations.

[17] For example, see Corporate Adviser
https://capa-data.com/

24. We estimate there are around 1,400 schemes[18] in scope of both measures, based on TPR data.

Familiarisation Cost

25. Only 'relevant schemes' directly affected will be expected to familiarise themselves with the new regulations and guidance from TPR.
26. There will be a one-off cost to all 'relevant schemes' trustees to familiarise themselves with the proposed regulations and guidance. A pension scheme in scope will experience this one-off cost in the first year only.
27. We estimate that schemes in scope have approximately 3 trustees per scheme[19], with an estimated average hourly cost (including overheads) of around £64 per hour[20].
28. We estimate there are around 1,400 relevant schemes[21] in scope of the SIP amendment and new asset allocation disclosure regulations and therefore facing a familiarisation cost.
29. We estimate it would take trustees of schemes in scope approximately 4 hours to read and understand the regulations and guidance. We have assumed the regulations are 9 pages. Guidance from TPR is 1 page and guidance from DWP is 7 pages.

SIP Illiquid Statement familiarisation cost

Around 1,400 schemes in scope x 4 hours spent familiarising x around 3 trustees per scheme x around £64 trustee wage per hour = £1,171,000

<u>Amendment to the Statement of Investment Principles Regulations</u>

30. The costs to 'relevant schemes' in scope resulting from this policy proposal are divided into:
    - The costs of producing the explanatory statement on their policy towards investment in illiquid assets
    - The cost of updating the Statement of Investment principles or default Statement of Investment Principles with new information every three years

Producing Explanatory Statement Cost

31. 'Relevant schemes' in scope will face the cost of producing an explanatory statement on their policy towards investment in illiquid assets. Pension schemes in scope will experience a one-off cost of producing the initial

[18] Data from The Pensions Regulator, figure rounded to the nearest 100
[19] Weighted average of trustees by scheme size using 'The Pensions Regulator Trustee Landscape Quantitative Research' (October 2015) (Estimate is based on figure 3.2.2) https://webarchive.nationalarchives.gov.uk/20170712122409/http:/www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf
[20] See Paragraph 90 for average hourly trustee wage figure assumptions
[21] Data from The Pensions Regulator, figure rounded to the nearest 100

version of this statement in the first year only. We expect this statement to range in length from minimum one paragraph to maximum three paragraphs.

32. This cost will involve the additional time spent by 'relevant schemes' in scope on creating and agreeing their policy on illiquid investment and the setting of trustee beliefs on illiquids.
33. Based on consultation responses, our estimate of aggregate costs to 'relevant schemes' in scope is £5,000 in year one only.

One-off explanatory statement cost

Around 1,400 schemes in scope x £5,000 to produce an explanatory statement = £6,850,000

34. Some consultation responses outlined there may be additional one-off costs for training on illiquids for trustees. However, we consider this to be included in trustees' existing fiduciary duty and therefore have not included in our costs to business.
35. Some consultation responses also outlined there may be additional one-off costs for schemes to seek legal advice on their illiquid investment policy and consulting fees associated with advice on incorporating illiquid assets. However, this is optional and not required by the regulations. Therefore, we have not included this within our costs to business.

Updating Explanatory Statement Cost

36. There will be an ongoing cost to 'relevant schemes' in scope to update their explanatory statement at least every three years, in line with the Statement of Investment principles reporting requirements.
37. This cost will involve the additional time spent by 'relevant schemes' in scope discussing and updating their policy, production of an updated explanatory statement in their SIP and the time spent aligning format with other member communications.
38. Based on consultation responses, our estimate of aggregate costs to 'relevant schemes in scope' is £1,000 every three years.

Ongoing explanatory statement cost

Around 1,400 schemes in scope x £1,000 to update an explanatory statement = £1,370,000

39. We expect this cost will decrease over time due to the consolidation of the number of schemes in the market. We have assumed that consolidation continues at the current pace of around 9% a year.[22]

<u>Asset Allocation Disclosure Regulations</u>

[22] DC trust: scheme return data 2021 to 2022. https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-scheme-return-data-2021-2022

40. The costs to 'relevant schemes' in scope resulting from this policy proposal are divided into:
    - The costs of producing asset allocation information and breakdowns
    - The cost of updating the Chair's Statement with new asset allocation information and breakdowns annually

Producing Asset Allocations Cost

41. 'Relevant schemes' in scope will face the cost of collating the necessary data, producing the requested asset allocation breakdowns and accompanying explanatory text, in line with the asset allocation disclosure requirements.
42. Pension schemes in scope will experience this cost in the first year only.
43. This cost will involve the additional time 'relevant schemes' in scope spend on engagement with asset managers, obtaining and validating the required information and data and preparing it in the correct format with accompanying text.
44. Based on consultation responses, our estimate of the aggregate costs to 'relevant schemes' in scope is £5,000 in year one only.
45. 26 pension schemes in scope of this proposal disclosed information on their asset allocations in Corporate Adviser's Master Trusts & GPP's Defaults Report 2022[23]. Therefore, we have assumed these 26 schemes will only face a cost from preparing the data in the correct format with accompanying text in year one. This represents less than 2 percent of total schemes in scope of the proposal.
46. Based on consultation responses, our estimate of the aggregate costs to these 26 'relevant schemes' in scope is £1,000 in year one only. This estimate is based on our estimate for ongoing costs discussed in the following section.

One-off asset allocations cost

(Around 1,350[24] schemes in scope x £5,000 to produce asset allocations) + (26 schemes in scope x £1,000) = £6,746,000

47. Some consultation responses outlined there may be additional one-off legal costs to 'relevant schemes' in scope as they may wish to seek advice from their legal teams in the first year of the policy to ensure they are fulfilling the regulatory requirements. However, this is not required by the regulations. Therefore, we have not included this within our costs to business.

Updating Asset Allocations Cost

[23] Corporate Adviser's Master Trust & GPP's Defaults Report 2022 https://corporate-adviser.com/research/
[24] Figure rounded to the nearest 50

48. There will be an ongoing cost to ‘relevant schemes’ in scope to update the asset allocation breakdowns and explanatory text every year, in line with the asset allocation disclosure requirements.
49. This cost will involve the time ‘relevant schemes’ in scope spend every year updating their data on asset allocations, validating it, updating their breakdowns and explanatory text in the Chair’s Statement which is published on scheme’s websites. This cost will be an equal undertaking for schemes who have previously published asset allocation information and schemes who have not.
50. Based on consultation responses, our estimate of the aggregate cost to ‘relevant schemes’ in scope is £1,000 each year.

Ongoing asset allocations cost

Around 1,400 schemes in scope x £1,000 to update asset allocations = £1,370,000

51. We expect this cost will reduce over time due to continued consolidation of schemes in the market.

Non-monetised impacts to business

Member communication costs

52. The additional information on illiquid asset investment and asset allocations in ‘relevant schemes’ in scope may result in an increase in member queries.
53. ‘Relevant schemes’ in scope may experience an increase in costs to respond to increased member queries as a result of the proposed regulations.
54. This cost is indirect and not quantifiable as it relies on the responses of members of the ‘relevant schemes’ in scope.

Costs to Regulator

55. The Pensions Regulator (TPR) will be responsible for monitoring and enforcing compliance with the requirements. We have engaged with TPR to estimate the cost and impact on them of these measures.

Set-up costs

56. There will be a one-off cost to TPR to familiarise themselves with the proposed regulations, understand the impacts on their duties and implement required changes.
57. Engagement with TPR suggests that set-up costs will be negligible.

Monitoring and enforcement costs

58. TPR compliance and enforcement is currently subject to a working group. We will continue to work with TPR during this process to obtain robust estimates when available.

Amendment to the Statement of Investment Principles Regulations

59. TPR expect to monitor compliance with the amendment to the Statement of Investment principles regulations via the scheme return or by checking the SIP document on the relevant scheme's website.

Asset Allocation Disclosure Regulations

60. TPR expect to monitor compliance with the asset allocation disclosure regulations via the Chair's Statement. Figures below are calculated based on monitoring and enforcement costs for Master Trusts in scope of the proposed regulations and a small number of non-Master Trust schemes in scope, whose Chair's Statements TPR may review.
61. TPR will experience one-off legal and policy costs in the first year only. This cost will involve the policy input associated with amendments to the compliance process and changes to TPR's guidance. The one-off cost also involves legal costs associated with initial roll-out of new review questions, training costs, updating guidance and external communications.
62. Table 1 sets out the estimated one-off costs provided by TPR for monitoring and enforcing compliance with asset allocation disclosure regulations.

Table 1: Estimated one-off costs to TPR related to asset allocation disclosure regulations

Total one-off costs	**£2,000**[25]
Of which:	
Legal	£1,250 - £1,500
Policy	£180

Source: The Pensions Regulator, unpublished data

63. TPR will experience ongoing regulatory and legal costs. This cost will involve additional time spent by regulatory transactions teams conducting reviews of Chair's Statements and the additional time spent by legal teams on these reviews.
64. Table 2 sets out the estimated ongoing costs provided by TPR for monitoring and enforcing compliance with asset allocation disclosure regulations.

Table 2: Estimated ongoing costs to TPR related to asset allocation disclosure regulations

Total ongoing costs	**£8,000**[26]

[25] Figure rounded to the nearest 1,000
[26] Figure rounded to the nearest 1,000

Of which:	
Regulatory Transactions	£6,800
Legal	£700

Source: The Pensions Regulator, unpublished data

Impacts to Members and Employers

65. It is not possible to quantify the impacts to members and employers as a result of regulations as the potential costs and benefits described below are indirect and reliant on the actions of ‘relevant schemes’ in scope.
66. Members of ‘relevant schemes’ in scope could benefit from the introduction of these regulations, specifically those presently in pension schemes that do not have an established policy on investment in illiquid assets or publicly report their asset allocations.
67. A key benefit for members and employers of ‘relevant schemes’ is access to more information about how their or their employees’ pension fund is invested. This could result in increased member and employer engagement with pensions.
68. An additional benefit for members of ‘relevant schemes’ is the potential for improved outcomes for their pension savings. If ‘relevant schemes’ in scope have not previously considered investment in illiquid assets before being required to develop an explanatory statement, they may now choose to invest in these types of assets which have the potential to give members higher returns. In addition, if pension schemes decide to commence investing in illiquid assets, there may be benefits to members in lower risk from greater diversification of their pension portfolios.

Wider economic and societal impacts

69. A wider, indirect benefit of the disclosure of illiquid policies could be the potential for an increased share of assets being invested in illiquid assets. This could mean that sectors of the UK economy such as smaller innovative firms, housing, infrastructure, and green infrastructure receive more investment than prior to the regulations, which could have wide ranging impacts across society.

Key assumptions/sensitivities/risks

<u>Risks</u>

Counterfactual

70. The costs are highly dependent on the counterfactual which will vary between schemes.
71. ‘Relevant schemes’ in scope of disclosure of illiquid asset policy proposals who already have an established policy on investment in illiquid assets may

experience lower costs from new regulations, relative to schemes without a current policy on illiquids.

72. ‘Relevant schemes’ in scope of asset allocation disclosure proposals who already report their asset allocations publicly may experience lower costs from new regulations, relative to schemes who do not currently report this information.

Monitoring and Enforcement

73. Compliance and enforcement plans are currently subject to a TPR working group. Therefore, TPR are unable to provide confirmed monitoring and enforcement plans for both measures and estimates they have provided may be subject to change.

<u>Sensitivity Analysis</u>

Familiarisation

74. We assume it will take approximately 3 trustees per scheme in scope 4 hours to familiarise themselves with the regulations in the first year only. When allowing for sensitivity around the time assumption of 50 per cent (i.e., 2 or 6 hours) holding everything else constant, the familiarisation cost decreases to £585,000 and increases to £1,756,000.

<u>*Pension schemes in scope – Amendment to the Statement of Investment Principles Regulations*</u>

Producing explanatory statement

75. The upper limit cost per scheme of producing an explanatory statement on their policy towards investment in illiquid assets is assumed to be £7,500 based on an increase of 50 per cent. The lower limit is £1,000 based on the ranges provided by the pension industry’s responses to DWP’s consultation. When allowing for sensitivity around the cost assumption based on these upper and lower limits holding everything else constant, the one-off cost decreases to £1,370,000 and increases to £10,275,000.

Updating explanatory statement

76. The upper limit cost per scheme of updating an explanatory statement on their policy towards investment in illiquid assets is assumed to be £1,500 based on an increase of 50 per cent. The lower limit is £500 based on the ranges provided by the pension industry’s responses to DWP’s consultation. When allowing for sensitivity around the cost assumption based on these upper and lower limits holding everything else constant, the ongoing cost decreases to £685,000 and increases to £2,055,000.

77. We expect this cost will reduce over time due to continued consolidation of schemes in the market.

Pension schemes in scope – Asset Allocation Disclosure Regulations

Producing asset allocation breakdowns and information

78. The upper limit cost per scheme of producing an initial asset allocation breakdown in year one and accompanying text is assumed to be £7,500 for schemes not already disclosing and £1,500 for schemes already disclosing based on an increase of 50 per cent. The lower limit is £1,000 for schemes not already disclosing and £500 for schemes already disclosing based on the ranges provided by the pension industry's responses to DWP's consultation. When allowing for sensitivity around the cost assumption based on these upper and lower limits holding everything else constant, the one-off cost decreases to £1,357,000 and increases to £10,119,000.

Updating asset allocation breakdowns and information

79. The upper limit cost per scheme of updating asset allocation breakdown and accompanying text each year is assumed to be £1,500 based on an increase of 50 per cent. The lower limit is £500 based on the ranges provided by the pension industry's responses to DWP's consultation. When allowing for sensitivity around the cost assumption based on these upper and lower limits holding everything else constant, the ongoing cost decreases to £685,000 and increases to £2,055,000.

Assumptions

Assumptions for schemes' familiarisation

80. We have assumed only 'relevant schemes' in scope of the amendment to the SIP regulations and new asset allocation disclosure regulations will need to familiarise themselves. We estimate there are around 1,400 schemes[27] who will be affected.
81. We have assumed an average cost of time for a Trustee is around £64 per hour. This is based on the midpoint cost from initial assumptions of £29 and [Impact Assessment on Occupational Pension Schemes (Charges and Governance)] which assumed wage of £100 an hour.
82. We have assumed an average of approximately 3 trustees per scheme, for schemes in scope with 12 or more members. This is based on a weighted average using TPR data on 'Number of Trustees – by scheme size'[28].

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[27] Data from The Pensions Regulator, figure rounded to the nearest 100

[28] Weighted average of trustees by scheme size using The Pensions Regulator Trustee Landscape Quantitative Research (October 2015) (Estimate is based on figure 3.2.2) https://webarchive.nationalarchives.gov.uk/20170712122409/http:/www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf

83. For familiarisation costs we have assumed Trustees will take 4 hours to read and understand all the documents.
84. We have assumed regulations will be 9 pages and guidance will be 8 pages.

<u>Amendment of Statement of Investment Principles Regulations</u>

Assumptions for producing explanatory statement costs

85. We have assumed only ‘relevant schemes’ in scope of the regulations will need to produce an explanatory statement on their policy towards investment in illiquid assets.
86. This evidence was gathered via the consultation. We have assumed providers will experience these costs in the first year only.

Assumptions for updating explanatory statement costs

87. We have assumed only ‘relevant schemes’ in scope of the regulations will need to update their explanatory statement on their policy towards investment in illiquid assets in their Statement of Investment Principles.
88. This evidence was gathered via the consultation. We have assumed providers will experience these costs every three years, as this is the minimum frequency which schemes are required to update their SIP. Although, we expect the number of providers will decrease every year due to consolidation in the market.

<u>Asset Allocation Disclosure Regulations</u>

Assumptions for producing asset allocation costs

89. We have assumed only ‘relevant schemes’ within the scope of regulations will need to produce asset allocation breakdowns and accompanying text.
90. We have assumed 26 pension schemes in scope of this measure already have access to the required data and information in the appropriate format, given their inclusion in Corporate Advisor’s Master Trusts & GPP’s Defaults Report 2022[29].
91. This evidence was gathered via the consultation. We have assumed providers will experience this cost in the first year only.

Assumptions for updating asset allocation costs

92. We have assumed only ‘relevant schemes’ within the scope of regulations will need to update their asset allocation breakdowns and accompanying text in their Chair’s Statement.

[29] Corporate Adviser’s Master Trust & GPP’s Defaults Report 2022
https://corporate-adviser.com/research/

93. This evidence was gathered via the consultation. We have assumed providers will experience this cost every year. Although, we expect the number of providers will decrease every year due to consolidation in the market.

Impact on Small Businesses

94. Information on pension schemes by number of employees is not available. Therefore, we have used scheme size (number of members) as a proxy when considering impacts on small and micro businesses.
95. Only pension schemes with 12 or more members will be required to produce an explanatory statement on their policy towards investment in illiquid assets for their Statement of Investment Principles and disclose their asset allocations. Therefore, we do not expect micro pension schemes to be impacted by this measure. However, for qualifying CMP schemes, who will state their policies on illiquid investments in their main SIP, the regulations only apply to schemes with 100 or more members exempting small CMP schemes from the impacts of this policy.
96. Medium sized schemes (with 50-499 members) are not exempted from this policy. On aggregate these schemes still hold material assets (schemes with 100-999 members held £1.9bn of assets in 2022[30]) and excluding them would remove these assets from scope.
97. Many micro businesses use large pension schemes to fulfil their automatic enrolment duties. Therefore, their employees may benefit from the proposed regulations in the manner discussed in the 'Impact on Members' section.

Monitoring and Evaluation

98. The Pensions Regulator (TPR) will be responsible for monitoring and enforcing compliance with the requirements.
99. DWP will work closely and continuously with TPR and industry stakeholders to understand and review the post-implementation impact of these policies and ensure they continue to fulfil our policy intent with minimum burden to trustees.
100. A PIR has been included in the regulations and this review of the regulatory provisions 1-5 contained within the regulations will include the publication of a report setting out the conclusions of the review. This must be published by the 6 April 2028 with subsequent reports being published at intervals not exceeding five years.
101. Although the regulations are planned (subject to Parliamentary time/approval) to come into effect in 2023, there will be transition period between this date and when schemes will be required to action the asset allocation disclosure requirements in their chair's statement and the illiquid

[30] DC trust: scheme return data 2021 to 2022 | The Pensions Regulator https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-scheme-return-data-2021-2022

investment policy disclosure requirements in their default statement of investment principles. We therefore propose to conduct a review of the guidance and of the real-world impacts of these policies within three years give enough time for collection of sufficient evidence of the impact and allow for familiarisation of the policies by schemes after at least two disclosures.

Summary of Impacts[31]

Summary of Impacts per scheme

Type of Cost	Year One	Year Two	Year Three	Year Four and Onwards	Frequency	Assumptions and Rationale
One-off costs – Familiarisation	£900[32]	N/A	N/A	N/A	Once per scheme	All trustees of a scheme in scope are required to familiarise and understand the requirements.
One-off costs – Amendment to SIP regulations production costs	£5,000	N/A	N/A	N/A	Once per scheme	Costs from the pensions industry responses to DWP consultation.
Ongoing costs – Amendment to SIP regulations updates	£0	£0	£0	£1,000	Every three years, or without delay following any significant change in investment policy	Costs from the pensions industry responses to DWP consultation.
One-off costs – Asset Allocation disclosure regulations production	**Schemes already reporting:** £1,000 **Schemes not already reporting:** £5,000	N/A	N/A	N/A	Once per scheme	Costs from the pensions industry responses to DWP consultation.

[31] All costs are rounded to the nearest 1,000
[32] Cost rounded to the nearest 100.

Ongoing costs – Asset Allocation disclosure regulations updates	£0	£1,000	£1,000	£1,000	Yearly within the Chair’s Statement	Costs from the pensions industry responses to DWP consultation.
Total Costs	Schemes: £6,000-£10,000 in Year One; £1,000 in Years Two, Three, Five, Six, Eight and Nine and £2,000 in Years Four, Seven and Ten.					

Summary of Impacts – totals

Type of Cost	Year One	Year Two	Year Three	Year Four and Onwards	Frequency	Assumptions and Rationale
One-off costs – Familiarisation	£1,171,000	N/A	N/A	N/A	Once per scheme	Assumed all trustees of a scheme in scope are required to familiarise and understand the requirements.
One-off costs – Amendment to SIP regulations production costs	£6,850,000	N/A	N/A	N/A	Once per scheme	Costs from the pensions industry responses to DWP consultation.
One-off costs – Amendment to SIP regulations TPR cost	Not currently available					
Ongoing costs – Amendment to SIP regulations updates	£0	£0	£0	£1,0200,000[33]	Every three years, or without delay following any significant change in investment policy	Costs from the pensions industry responses to DWP consultation.
Ongoing costs – Amendment to SIP regulations TPR cost	Not currently available					
One-off costs – Asset Allocation disclosure regulations production	£6,746,000	N/A	N/A	N/A	Once per scheme	Costs from the pensions industry

[33] Cost will be incurred every 3 years (Year 4, 7 and 10)

						responses to DWP consultation.
One-off costs – Asset Allocation disclosure regulations TPR cost	£2,000	N/A	N/A	N/A	Once	Costs from The Pensions Regulator.
Ongoing costs – Asset Allocation disclosure regulations updates	£0	£1,242,000	£1,125,000	£1,020,000	Yearly within the Chair's Statement	Costs from the pensions industry responses to DWP consultation. We expect this cost will reduce over time due to continued consolidation of schemes in the market. assumed in line with 2012-2022 trend of around 9% a year[34]
Ongoing costs – Asset Allocation disclosure regulations TPR cost	£8,000	£8,000	£8,000	£8,000	Yearly	Costs from The Pensions Regulator.
Total Costs	Schemes: £12,596,000 in Year One; £1,242,000 in Year Two, 1,125,000 in Year Three, £2,040,000 in Year Four, £924,000 in Year Five, £838,000 in Year Six, £1,518,000 in Year Seven, £688,000 in Year Eight, £624,000 in Year Nine and £1,130,000 in Year Ten. TPR: £10,000 in Year One and £8,000 in Years Two to Ten.					

[34] DC trust: scheme return data 2021 to 2022 | The Pensions Regulator
https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-scheme-return-data-2021-2022