Department for Work & Pensions	Impact Assessment (Final)	
Title of measure		The Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc.) (Amendment) Regulations 2022
Lead Department/Agency		DWP
Planned coming into force /implementation date		April 2022
Origin (Domestic/EU/Regulator)		Domestic
Policy lead		Thomas McGuffog
Lead analyst		Charlotte Springle / Darvin Sridharan
Departmental Assessment		Self-certified
Total Net Present Social Value (over 10year period): **£-65.2m**	**Equivalent Annual Net Direct Cost to Business (EANDCB)(over 10 year period):** **£4.4m**	**Business Impact Status:** Non-Qualifying Regulatory Provision
Summary - Intervention and impacts		

Policy Background

- The pension freedoms gave pension savers much more choice than they had previously on how to access their defined contribution (DC) pensions, alongside introducing additional complexity into retirement decisions. Pension Wise guidance, a free, impartial guidance service provided by the Money and Pensions Service (MaPS), was introduced as part of these changes. However, many pension savers still access their DC pension pots without utilising financial advice or guidance and this may leave them open to making decisions that are detrimental to their future income. The Government is seeking to encourage take up of Pension Wise guidance to ensure pension savers have access to the information and guidance they need to understand the options they have in retirement.

Issue/Rationale for Intervention

- Financial advice and guidance play an important role in ensuring individuals have the support they need to make decisions about how to access their pension pots. Without this support, low levels of financial capability and engagement with pensions, behavioral biases and personal circumstances could put some pension holders at risk of making decisions that are detrimental to their future income. Some of the general attitudes or circumstances that could put pension holders at risk when making their decisions include early decumulation motivated by the tax-free lump sum and mistrust in pension providers.
- The Financial Conduct Authority's (FCA) Retirement Income Market Data[1] shows that in 2019/20, 50% of all pots accessed in the contract-based retirement income market were accessed without regulated financial advice or Pension Wise guidance. As such the Government, during the passage of the Financial Guidance and Claims Act 2018[2], committed to test approaches to a Stronger Nudge to pensions guidance, aimed at increasing the take up of Pension Wise guidance.
- The Government is best placed to intervene because, whilst independent financial advice will similarly help to ensure pension savers make the right decisions for them, the cost of independent financial advice may be prohibitive for many pension pots, especially for those from low income households. Providers may have their own source of guidance, but there is evidence to suggest that individuals find it difficult to navigate the range of information sources available and to assess

[1] FCA Retirement Market Income Data 2019/20 - https://www.fca.org.uk/data/retirement-income-market-data

[2] https://www.legislation.gov.uk/ukpga/2018/10/contents

how trustworthy the information is. Amongst all sources of pension information, Pension Wise is most trusted for its impartiality[3].

Proposed Intervention

- The policy objective for Stronger Nudge to pension guidance is to require trustees and managers of occupational pension schemes to ensure that, when they receive an application or communication in relation to an application from a beneficiary to receive or transfer for the purpose of receiving flexible benefits, the beneficiary has either received or opted out of receiving Pension Wise guidance. As part of this, trustees and managers will have a duty to explain the nature and purpose of Pension Wise and offer to book beneficiaries a Pension Wise appointment. Beneficiaries who wish to opt out will need to do so in a separate interaction, unless an exemption applies.
- The FCA will also implement rules for a Stronger Nudge to pensions guidance in the contract based market.
-

Intended Effects

- The intended effect is that more individuals take up the offer to receive Pension Wise guidance before accessing their occupational DC pension pot.

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

Option 0: Do Nothing

- There is evidence that take up of Pension Wise guidance is increasing year-on-year. There were around 132,000 face-to-face and telephone appointments attended in 2019/20, which was a 29% increase from 2018/19[4]. As such Government considered the option of not introducing regulations.
- However, the current increases in Pension Wise take up still leave a large number of pension holders making decisions without the use of financial advice or guidance.
- There is no guarantee the Pension Wise service would see an increase in take up without further regulatory intervention. We believe it is important to act now to achieve this increased take up, in order to ensure everyone has access to the guidance that will help them make an informed decision. This approach would also fail to replicate FCA rules that will implement a Stronger Nudge to pensions guidance in the contract-based market.

Option 1: Non-regulatory option

- A non-regulatory option would not be suitable. The current provisions regarding when and how to signpost to Pension Wise are already set out in regulations, and requiring a beneficiary to have received guidance or opted out of guidance before proceeding with a transaction would conflict with existing duties requiring trustees and managers of pension schemes to progress a transfer when it is requested, so it will be necessary to amend the legislation in order to allow changes to the process.
- Introducing an extra step to refer beneficiaries to guidance would also represent a cost to providers of pension schemes, and without regulation there would be no obligation on trustees and managers to follow this step, so there would be an incentive on trustees and managers to not take any additional steps. If any providers do not comply with voluntary measures, this could lead to beneficiaries being treated differently according to the scheme they are member of, which

[3] Pension Freedoms – a qualitative research study of individuals' decumulation journeys, DWP (October 2020) https://www.gov.uk/government/publications/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys

[4] MaPs Money Helper Pension take-up dashboard - https://maps.org.uk/moneyhelper-pension-take-up-dashboard/

would contradict the objective of ensuring all beneficiaries with a need for guidance are encouraged to receive it. A non-legislative approach would also fail to replicate proposed FCA rules requiring providers of contract schemes to deliver the Stronger Nudge to Pension Wise guidance

Option 2: Regulation

- Introducing regulations will give trustees and managers the necessary powers to require beneficiaries to receive or opt out of Pension Wise guidance and will lead to the largest increase in take up of Pension Wise. This is our preferred option.

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

Impact on Business

- There are an estimated 35 larger and 556 smaller pension providers with Defined Contribution schemes which we have estimated to have a total transitions cost (including familiarisation) of £34,600,000 and an ongoing cost of £10,300,000 over the 10-year appraisal period.
- There is the opportunity cost of staff working on the Stronger Nudge processes as opposed to working on other areas such as boosting customer satisfaction and engagement.
- There are possible benefits from a potential increase in purchases of retirement products due to increased consumer information and engagement.

Impact on Individuals

- The cost to consumers for booking appointments or opting out of guidance is expected to be £5,100,000 over the 10-year appraisal period.
- There is the opportunity cost of needing to separately opt-out of guidance rather than use that time for themselves.
- There are potential benefits from increasing individuals' awareness and understanding of their pension information and potential options in retirement. This would support better retirement planning and decision making by individuals.

Impact on MaPS

- Over the 10-year appraisal period, the cost to the MaPS of providing additional Pension Wise appointments is estimated to be £30,900,000.

Departmental Policy signoff (SCS): Simon Boniwell Date: 18/11/21

Economist signoff (senior analyst): Andrew Ward Date: 18/11/21

Better Regulation Unit signoff: Prabhavati Mistry Date: 18/11/21

Additional Detail of preferred option

<u>Preferred Option (Option 2): Secondary Legislation</u>

Delivering the Stronger Nudge and Booking the Appointment

1. The new requirements propose that trustees and managers of occupational schemes in scope explain the nature and purpose of Pension Wise guidance and offer to book a Pension Wise appointment for the beneficiary as part of the application process.
2. Where beneficiaries accept this offer, trustees and managers should take reasonable steps to book a Pension Wise appointment at a time and date suitable to the beneficiary.
3. Where members do not take up the offer, or where trustees and managers are unable to book a suitable appointment despite taking reasonable steps, trustees and managers should provide details on how the beneficiary may book a Pension Wise appointment themselves. For example, in a purely postal journey trustees and managers will not be required to telephone the beneficiary to offer to book an appointment. This could take the form of providing instructions on how to book a Pension Wise appointment via post, or by providing a link to the Pension Wise booking tool, and requiring beneficiaries to confirm that they have received or opted out of this guidance before proceeding with the next stage of the application.
4. Trustees and managers will not be required to facilitate the booking of a Pension Wise appointment or ensure that beneficiaries have either opted out or received guidance in relation to applications by a beneficiary transferring for any purpose other than accessing flexible benefits, for example if they are transferring their DC pension for the sole purpose of consolidation. Trustees and managers may assume that a relevant beneficiary aged under 50 who wishes to transfer their pension benefits out of their existing scheme is doing so for the sole purpose of consolidation.
5. Trustees and managers in scope will only have a duty to fulfil the Stronger Nudge requirements in relation to an application from a beneficiary who has accrued rights *to flexible benefits* under the scheme and wishes to transfer their rights to *flexible benefits they have accrued.* They will not be required to deliver the Stronger Nudge to those applying to transfer into the scheme.
6. The Stronger Nudge will not need to be redelivered to beneficiaries who have already received the offer to have the booking of a Pension Wise appointment facilitated for them and have confirmed they have received Pension Wise guidance or opted out of receiving that guidance. This will apply even where the Stronger Nudge has been given by a different scheme involved in the transfer request.

Opting out of Guidance

7. We are also proposing that the opt-out process must be completed in a communication with the trustees or managers solely for the purpose of opting out if a specified exemption does not apply. This could be a phone call, email, letter, postal form, or digital form, which is separate from the individual's initial contact to receive (or transfer for the purpose of receiving) their pension benefits and from the providers' offer to book a Pension Wise appointment.

Exemptions

8. We exempt those who have already received Pension Wise guidance or received regulated financial advice on the proposed transaction, within the last 12 months, from the requirement to opt out in a separate interaction. We also propose to exempt those who are applying to access their pension benefits as a Serious ill Health Lump Sum, as defined in the Finance Act 2004, from the requirement to opt out in a separate interaction
9. In both of the above cases, trustees and managers should accept self-reported evidence of meeting an exemption, such as the beneficiary providing written or oral confirmation that they believe they meet one of these criteria.
10. Those who are applying to transfer their benefits only will also not be required to opt out in a separate interaction.

Record Keeping

11. The regulations will require trustees and managers to record when a beneficiary confirms they have received Pension Wise guidance as a result of the Stronger Nudge requirements.

12. We also require trustees and managers to record when a beneficiary opts out, and whether the beneficiary was exempt from the requirement to opt out in a separate interaction.

Other Consequential changes

13. We modify the Pension Schemes Act 1993 and Financial Services and Markets Act 2000, such that trustees and managers will be unable to proceed with a transfer application to which the Stronger Nudge requirements apply unless the conditions set under the Regulations have been satisfied.
14. We also update the definition of the term 'pensions guidance' set out in regulation 2 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (S.I 2013/2734). Currently these define the term 'pensions guidance' to mean guidance given by a designated guidance provider. We define the term 'pensions guidance' as information or guidance provided by any person in pursuance of the requirements mentioned in section 4 of the Financial Guidance and Claims Act 2018.
15. The regulations also make further minor amendments to the Disclosure Regulations 2013 to disapply requirements to signpost to Pension Wise when the Stronger Nudge to pensions guidance requirements apply, and to disapply the requirement to provide a postal or electronic address for further communication when the Stronger Nudge is delivered orally.

Regulators

16. The Pensions Regulator (TPR) would be responsible for monitoring and enforcing compliance with these requirements. The civil penalties provisions in regulations 5 of the Disclosure Regulations 2013 will apply to trustees/managers of schemes in scope of the Stronger Nudge regulations. If such trustees/managers should fail without reasonable excuse to comply with

the new Stronger Nudge requirements, such trustees/managers would be liable to pay a fine of up to £5,000 (individual) or up to £50,000 (body).

Meeting of Policy Objectives

17. This approach is the preferred option. It makes the regulatory changes necessary to enable trustees and managers to proceed with an application in scope only once a beneficiary has opted out or received Pension Wise guidance, and ensures that beneficiaries of different schemes receive the same level of support in making the decision to access guidance. Of the options considered, it is the option that will lead to the largest increase in take up of Pension Wise guidance, and thus meets our policy objective most successfully. It targets those who have not yet received guidance or financial advice (with those who have already received guidance or financial advice within the previous 12 months being exempt from the requirement to opt out in a separate interaction). It ensures that beneficiaries who decide they do not want Pension Wise guidance are able to opt out without difficulty, whilst ensuring that pension savers do not default into not receiving Pension Wise guidance

Evidence Gathering

18. During the process of estimating the potential costs and benefits of the proposed policy the Department have engaged with the UK pension industry. This included sending questionnaires to occupational DC schemes and administrators of these schemes and attending forums for both providers and administrators. By engaging in consultations with industry we were able to more accurately estimate the direct costs and benefits to business and most of the larger providers[5] were able to provide us their breakdown of potential costs incurred from implementing and delivering the Stronger Nudge.

Risks and assumptions

Key assumptions

Number of businesses in scope

19. Whilst the legal requirement to make the changes described above falls to the trustee/managers of occupational pension schemes, in practice the additional work may be done by administrators of DC pension schemes depending on how the scheme is governed. Where schemes are self-administered, the employer or trustee would be responsible for making the changes themselves. Therefore, to estimate the total number of businesses directly affected by these changes, we consider the number of administrators of occupational DC schemes, rather than assuming that all occupational DC schemes will face additional costs.

[5] Providers/Schemes will be referring to the businesses that are affected by the policy.

20. The Pension Regulator (TPR) 2020/21 scheme return data shows there are 2,840 schemes which this policy change is likely to impact, excluding Executive Pension Plans (EPP)[6] and Relevant Small Schemes (RSS), that have provided an administrator on the scheme return[7]. The number of providers of these schemes are estimated below in Table 1.

21. When estimating one-off implementation costs, we assume that large and medium providers are grouped together in a 'larger' category. From our consultations, large and medium providers are estimated to have similar one-off implementation costs.

Table 1: Estimated Providers of DC schemes by Size for Implementation costs[8]

Estimated number of Providers who administer occupational DC schemes, excluding RSS and EPP.		
Administrator Size	Estimated number of Providers	Estimated number of schemes they administer
Large	10	900
Medium	20	1000
Small	600	900

RSS/EPP Scheme

22. There are around 25,600 schemes identified as RSS/EPP. Of these, 11.4% are administered by a large provider, 4.5% by a medium and 32% by a small. Therefore, for 48% of these schemes we have not estimated any additional cost as the cost will be borne by the providers in Table 1.

23. There are around 13,300 remaining EPP/RSS schemes not included in the figures above. Due to their small nature we have assumed that they offer bespoke services to their members and will therefore not face additional implementation costs as they are unlikely to have IT systems to update and staff to train. However, we do include them when estimating familiarisation

[6] EPPs are schemes where a company is the only employer and the sole trustee, at least one third of current directors of the company are members, and all the members are either current or former directors. EPPs represent 600 (2%) of micro schemes.
[7] Previously known as small self-administered schemes (SSAS), relevant small schemes are schemes with fewer than 12 members where all the members are trustees of the scheme and either decisions have to be made unanimously or there is an independent trustee appointed to the scheme who appears on our trustee register. Where there is a sole corporate trustee the above conditions apply in relation to the directors of the corporate trustee. Relevant small schemes represent 21,750 (81%) of micro schemes.
[8] Figures used in Table 1 are based on unpublished data and rounded to 1 significant figure

costs. They are also included in on-going costs as the methodology uses pension savers rather than businesses, therefore incorporating the whole industry.

Proportion of members who access through different channels offered by schemes

24. The new proposed policy will apply to all channels offered by a pension scheme for their members to access their pension savings or to transfer their savings for the purposes of accessing. From engagement with industry, the 3 main channels offered are telephone, digital and postal. We have estimated the following percentage breakdown by channel by taking the average percentage allocated to each channel from the figures given by pension providers during consultation. However, this is based on a small sample of providers that were able to provide this information. The three channels can be broken down as:

- Telephone – Engagement with providers suggest this is the most common route for members to access their savings. We have estimated that **72%** of applications to access are conducted through this channel.
- Postal – Engagement with providers suggest postal journeys are still available however they are on the decline. We assume that only **7%** of applications to access are conducted through this channel.
- Digital –This could be through email or an online digital platform. Engagement with providers suggest that a fully serviced digital platform to access benefits are not yet common in the occupational market although many schemes are starting to develop these. We do not have enough evidence to suggest that providers have digital platforms and have therefore assumed this channel is in its simplest form – via email – and that **20%** of applications to access are conducted through this channel.

Number of pension savers in scope of the Stronger Nudge requirements

25. We do not hold data on the number of pension savers who make applications to their pension provider each year regarding accessing or transferring to access their pension in the occupational defined contribution (DC) market. As a result, we do not have a robust figure for the number of pension savers who will receive the Stronger Nudge because of this proposed policy.

26. However, the Financial Conduct Authority (FCA) Retirement Market Income Data[9] provides data at a *pension pot level* for how DC pensions are accessed for the first time in the contract-based market and whether the planholder has received regulated advice or Pension Wise guidance. In 2019/20 there were 673,831 pots accessed for the first time. We use this figure to determine the number of *pension savers* administrators will need to deliver the Stronger Nudge to each year. We expect that this figure gives us an overestimation of

[9] FCA Retirement Market Income Data 2019/20 - https://www.fca.org.uk/data/retirement-income-market-data

the number of *pension savers* who will be nudged to guidance because individuals may access more than one DC pension pot in a given year, with nearly two thirds of adults with multiple pensions pots[10]. With nearly two thirds of pension savers accessing multiple pots and analysis showing that an individual has on average 1.5-2 DC pots[11], we have divided the number of pots accessed by 1.5 to estimate the number of pension savers that will be in scope of the Stronger Nudge requirements.

27. As the occupational DC decumulation market is growing as a result of Automatic Enrolment which has brought millions of people in to saving into workplace pensions we have assumed a growth factor for the number of pots being accessed in each year following inception of 5.3%[12] based on historic growth rates of DC pots being accessed.

28. The FCA data only covers the contract-based market, and so although not directly capturing the occupational DC market we are aware that many occupational DC schemes do not offer a full range of decumulation products at present. Therefore, at the point of access we expect the majority of occupational DC members to transfer to the contract-based market at the point of accessing. However, we are aware that using this data will be an overestimation of the cost to the occupational market and the estimates below will provide a maximum estimate.

Number of pension savers who take up the offer of a Pension Wise appointment from their scheme

29. The FCA's data shows that 50% of pension pots in 2019/20 received financial advice or Pension Wise guidance when the planholder accessed their pot for the first time[13]. We therefore assume that this percentage is applied to the number of *pension savers* as outlined above and will not be impacted by this policy as they would receive financial advice or Pension Wise guidance under the baseline. This is a simplifying assumption as some pension savers may want, and will be able to book, another appointment. However, the policy is primarily targeted at those that do not currently receive advice or guidance when accessing their pension.

30. To estimate how many of the remaining 50% of pension savers will agree for their provider to book them a Pension Wise appointment after receiving the Stronger Nudge we have first used evidence from The Behavioural Insights Team trials conducted from October 2019 to February 2020 to test the effectiveness of 'A Stronger Nudge to Guidance'[14]. The trials found that of those pension savers who did not report having had guidance or advice in the previous year, approximately 11% received Pension Wise guidance as a

[10] Aegon (2017) *1 in 5 with multiple pensions has lost track of savings*
[11] Unpublished DWP analysis of Wealth and Assets Survey (2020)
[12] This is based on previous growth rates on the number of DC pots being accessed in the Retirement Market Income Data.
[13] FCA Retirement Market Income Data 2019/20 - https://www.fca.org.uk/data/retirement-income-market-data
[14] https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/07/maps-stronger-nudge-evaluation-report-july-2020.pdf

result of the Stronger Nudge interventions. However, this trial did not consider the effectiveness of a separate opt out.

31. Following the trials, the Department for Work and Pensions undertook in-house qualitative research with pension savers to understand how the separate opt-out would affect take up of Pension Wise appointments. The analysis of this research suggested that most pension savers thought a separate opt out would make them more likely to book a Pension Wise appointment. Due to the qualitative nature we cannot provide a figure for how much we expect this to increase take up beyond that of the trial findings. We therefore use 11% from the trials as a 'best' estimate increase in take-up for pension savers who haven't already had regulation financial advice or Pension Wise guidance. The figures used in the sensitivity analysis are estimations of what the outcome could be and should not be seen as targets set by the Department for the success of the policy.

32. Using our best estimate of a 11% increase in the take-up of Pension Wise appointments (for those that previously did not have any advice or Pension Wise guidance) the table below shows the volumes of pension savers which will need a Pension Wise appointment to be booked for them by their provider.

Table 2: Estimation of pension savers referred to Pension Wise/ in scope of the Stronger Nudge requirements and appointments booked for 10-year period[15]

Year	Best estimate of the number of pension savers contacting regarding accessing or transferring to access their pension (Previous year multiplied by 5.3%)	Proportion who prior to intervention did not take up financial advice or Pension Wise Guidance (50%)	Best estimate of the number of additional appointments booked (11% of the left column)
Year 1	449,200	224,600	24,700
Year 2	473,000	236,500	26,000
Year 3	498,100	249,000	27,400
Year 4	524,500	262,200	28,800
Year 5	552,300	276,100	30,400
Year 6	581,600	290,800	32,000
Year 7	612,400	306,200	33,700
Year 8	644,900	322,400	35,500
Year 9	679,000	339,500	37,300
Year 10	715,000	357,500	39,300

[15] Figures in this table have been rounded to the nearest hundred

Cost of time

33. To calculate the cost of time we have used the Annual Survey of Hours and Earnings (ASHE) provisional data for 2021[16].
34. Using the median hourly wage for Corporate Managers and directors of £22.82. This is then uplifted by 27%, according to the Green Book guidance, to account for non-wage costs to £28.98. This is the considered cost of time for management roles within administrators.
35. We also use the median hourly wage for administrative occupations of £12.30 also uplifted by 27% to £15.62. This is considered the cost of time for those delivering the Stronger Nudge and booking the appointment.

Non-monetised costs and benefits of each option

Non monetised benefits

36. Option 0: The Government does not intervene in the market and therefore does not increase the burden on pension providers to oblige by any new regulations however with 50% of DC pension pots accessed without regulated financial advice or Pension Wise guidance[17], there may be a failure in increasing the take-up of guidance.
37. Option 1: We believe this option to have the same effect as option 0 whereby trustees and managers are unable to require beneficiaries to receive or opt out of guidance so beneficiaries will not be any more likely to access guidance compared to the current baseline.
38. Option 2 (Preferred option): We believe that by legislating the Stronger nudge to pensions guidance, pension savers are more likely to be engaged in their pensions and will have access to more information about the choices they have in retirement. They may also now be more equipped to avoid scams.

Non monetised costs

39. Option 2 (Preferred option): For providers, there is the opportunity cost of staff working on the Stronger Nudge processes as opposed to working on other areas such as to boost customer satisfaction and engagement. Also, for consumers there is the opportunity cost of needing to separately opt-out of guidance rather than use that time for themselves.

---

[16] Annual Survey of Hours and Earnings 2021 (provisional) Earnings and hours worked, occupation by two-digit SOC: ASHE Table 2 - Office for National Statistics (ons.gov.uk)
[17] FCA Retirement Market Income Data - https://www.fca.org.uk/data/retirement-income-market-data

Monetised costs and benefits

Direct costs to business

One-off costs - Familiarisation

40. We expect one-off familiarisation costs to all providers affected by the proposed changes to regulations. Providers will be required to read and understand the requirements of the policy. These costs will take place as a one-off instance in year 1, the year that the regulations are implemented. The one-off cost for familiarisation is estimated to be approximately £858,000 in year 1 of the regulations being implemented, across all providers in scope.

This figure is based on:

- Assuming it takes 2 hours for the provider to read the regulations and understand the requirements of the business. This is based on an estimated reading time of 6 minutes per page.
- Based on DWP consultations, larger providers will require 10 managers per business, small schemes will require 2 managers and RSS/EPP schemes will require 1 per business to familiarise.
- Assuming the average hourly wage of a corporate manager/director using ASHE data for 2021 is £28.98.
- We then estimate the familiarisation costs using the following method with figures outlined in Table 1:
  a) number of managers needed to familiarise for larger providers (10) * number of larger providers (35) = 350
  b) number of managers needed to familiarise for smaller providers (2) * number of smaller schemes (556) = 1,112
  c) number of managers needed to familiarise for the remaining RSS/EPP schemes (1) * number of RSS/EPP schemes (13,338) = 13,338
  d) Total managers needed to familiarise = The sum of all managers needed to familiarise for all providers/schemes = 14,800
  e) Total cost of familiarisation = total managers to familiarise (14,800) * number of hours to familiarise (2) * average hourly wage of manager (£28.98[18]) = £858,000

One-off costs – Implementation

41. Based on research with providers we have established the average cost of implementation for a large provider is **£567,000** and for a small provider is **£25,000**.

[18] Referenced in paragraph 34

42. The estimated cost of implementation by providers is made up of three components; training employees, updating IT systems (including building capability for the separate opt-out) and updating scripts.
43. We estimate the total one-off implementation costs to business to be **£33,700,000**.

Table 3: Cost to business calculations for the preferred option 2

Provider size (members)	**Cost of transition per provider**	**Number of providers**	**Total nominal cost**
Smaller	£25,000	556	£13,900,000
Larger	£567,000	35	£19,845,000
Total		591	**£33,745,000**

Ongoing costs to businesses

44. We have broken down the expected ongoing costs of the policy into 4 elements:

- delivering the Stronger Nudge,
- booking a Pension Wise appointment
- where necessary, the separate opt out; and
- record keeping a beneficiary's decision.

Ongoing costs – Delivering the Stronger Nudge

45. There will be ongoing costs to all providers in scope from delivering the Stronger Nudge. The total ongoing cost of this to all providers in scope is estimated to be around **£2,700,000** over the 10-year appraisal period.

This cost estimate is based on:

- The number of pension savers accessing DC pension pots in each year – using FCA Retirement Outcome data and a growth factor of 5.3%.
- Assuming that 73% of members make an application to access or transfer to access do so via telephone which will require additional time per call.
- Assuming that 20% of member's contact through a digital channel and 5% a postal channel. Responses from industry suggest that delivering the Stronger Nudge via the digital or postal journey will not incur any additional costs to the one-off costs detailed above as the assumption is the individual may bear the cost of booking appointments through these channels. This is detailed above in paragraph 3.

- Under current regulations[19] providers are already required to signpost customers at the point of access to Pension Wise guidance. As a result, the on-going cost is the additional time to deliver the Stronger Nudge script over the time taken to currently signpost. Based on responses from industry, we use a best estimate of 2.5 minutes (0.042 hours) additional time for the Stronger Nudge to be delivered, when delivering by telephone.
- We have applied this additional time of an administrative member of staff of £15.62 per hour to all appointments in scope.
- We then estimate the ongoing costs of delivering the Stronger Nudge using the following method:
    a. Number of pension savers accessing their pension in year 1 (449,221[20]) * percentage of pension savers contacting using telephone channels (0.72) * additional time taken in hours to deliver Stronger Nudge (0.042) * average hourly wage of employee (15.62[21]) = £212,000.
    b. This calculation is repeated for all years in Table 2 to estimate a total ongoing cost of **£2,700,000** for delivering the Stronger Nudge.

Ongoing cost - Booking the appointment

46. As outlined above, the proposed regulations will require the provider to offer to book the Pension Wise appointment for beneficiaries once the Stronger Nudge is delivered. We estimate an ongoing cost of time for providers to book Pension Wise appointments of around **£593,000** across the 10-year appraisal period.

This cost estimate is based on:

- 50% of pension savers already access their pension with either advice or guidance so will not need to book an appointment as stated in paragraph 29.
- A best estimate of an 11% increase in the number of pension savers who will want their provider to book them a Pension Wise appointment who didn't previously have financial advice or Pension Wise guidance in the last 12 months (as outlined in paragraph 31).
- We assume the time taken for a pension provider to book a Pension Wise appointment on the telephone using the Pension Wise booking tool taking approximately 10 minutes (0.17 hours).
- Applying this to the 72% of contacts which are estimated to be through the telephone channel.

[19] The Occupational and Personal Pension Schemes (Disclosure of Information) (Amendment) Regulations 2015 (legislation.gov.uk)
[20] Based on figures from Table 2
[21] Based figures in paragraph 35

- Applying the cost of time of an administrative occupation wage which is £15.62 per hour.
- We are also assuming that for the digital channel and the postal channel there will be no additional ongoing costs to providers. The Stronger Nudge can be provided in the digital journey and via post with a link to the online Pension Wise booking tool with the option for a beneficiary to book it themselves but in some rare cases may choose to contact the provider to facilitate the booking.
- We then estimate the ongoing costs of Booking an appointment using the following method:
    a. Number of pension savers accepting an appointment = number of pension savers accessing their pension in year 1 (449,221[22]) * percentage that have not had advice or guidance already (0.5) * percentage increase in expected take-up (0.11) = 24,707
    b. Cost of booking an appointment = Number of pension savers accepting an appointment (24,707) * percentage that contact through telephone (0.72) * additional time taken in hours to book an appointment (0.17) * average hourly employee wage (15.62) = £47,237.
    c. This calculation is repeated for all years in Table 2 to estimate a total ongoing cost of **£593,000** for booking an appointment.

Separate Opt-out

47. There will be additional ongoing costs to all providers to record the separate opt out from beneficiaries. As explained in paragraph 7, for customers who do not wish to take up the offer of a Pension Wise appointment and are not exempt from the separate opt out, they will need to carry out a separate form of communication in order to proceed with accessing their DC pot. The policy is not prescriptive in how this separate opt out should be delivered and could be through a separate phone call, digital form or email for example. Some of the cost will be borne by the beneficiary which is explained in paragraph 63.
48. The total ongoing cost to all providers in scope to implement the separate opt out is estimated to be **£5,100,000** over the 10-year appraisal period.
49. All providers in scope will be required to confirm that when the pension saver wishes to opt-out of a Pension Wise appointment that this is done so via a separate communication unless they are exempt. To estimate the cost, we have made an assumption that beneficiaries will opt out through a separate phone call.

    To estimate the ongoing cost, we assume that:

    - If the pension saver wishes to opt out via the telephone, they will call up their provider and formally confirm that they wish to proceed without a

[22] Based on figures in Table 2

Pension Wise appointment. Based on evidence from providers, we expect that this will require an additional 5 minutes (0.083 hours) of employee time and use ASHE data on the average wage for administrative occupations described in paragraph 35.

- If the pension saver wishes to opt out through a digital or by post platform, assume there to be no ongoing costs to providers as stated in paragraph 24.
- We then estimate the ongoing costs of a separate opt-out using the following method:
    a. Number of pension savers opting out of an appointment = number of pension savers accessing their pensions in year 1 (449,221) – number of pension savers accepting an appointment (24,707[23]) = 424,514
    b. Cost of separate opt-out = Number of pension savers opting out (424,514) * percentage that contact through telephone (0.72) * additional time taken to opt-out of an appointment (0.083) * average hourly employee wage (15.62) = £399,721.
    c. This calculation is repeated for all years in Table 2 to estimate a total ongoing cost of **£5,100,000** for the separate opt-out of.

Ongoing cost - Recording a beneficiary's decision

50. Providers that do not currently record whether a pension saver has had Pension Wise guidance will be required to now record if an appointment has been booked or opted out of. All businesses in scope will be required to store information as described in the regulations.
51. The ongoing cost of recording a beneficiary's decision is estimated to be **£2,160,000** over the 10-year appraisal period for all providers in scope.
52. Based on DWP consultation, we estimate that it will take on average an additional 2 minutes (0.033 hours) of time to record the required information for telephone and postal journeys. The digital journey will encounter no additional costs.
53. Applying this to the 72% of contacts which are estimated to be through the telephone channel.
54. Applying the cost of time of an administrative occupation wage which is £15.62 per hour.
55. We then estimate the ongoing costs of recording a beneficiary's decision using the following method:
    a. number of pension savers accessing their pensions in year 1 (449,221) * percentage that contact through telephone (0.72) * additional time taken to opt-out of an appointment (0.033) * average hourly employee wage (15.62) = £169,194.

[23] Based on figures in paragraph 46a

b. This calculation is repeated for all years in Table 2 to estimate a total ongoing cost of **£2,160,000** for recording a beneficiary's decision.

Summary of total costs and benefits

The estimated annual net direct cost to business (EANDCB) in any one year is **£4,400,000.**

Table of Impacts

<table>
<tr><th colspan="5">Costs</th></tr>
<tr><th>Type</th><th>Affected Party</th><th>Amount</th><th>In scope of EANDCB</th><th>Ongoing/ One- off</th></tr>
<tr><td>Familiarisation</td><td>Provider</td><td>£858,000</td><td>Y</td><td>One- off</td></tr>
<tr><td>Implementation</td><td>Provider</td><td>£33,700,000</td><td>Y</td><td>One-off</td></tr>
<tr><td>Delivery of Stronger Nudge</td><td>Provider</td><td>£2,700,000 (Over whole 10-year appraisal period)</td><td>Y</td><td>Ongoing</td></tr>
<tr><td rowspan="2">Booking Pension Wise appointment</td><td>Provider</td><td>£593,000 (Over whole 10-year appraisal period)</td><td>Y</td><td rowspan="2">Ongoing</td></tr>
<tr><td>Individual</td><td>£220,000 Over whole 10-year appraisal period)</td><td>N</td></tr>
<tr><td rowspan="2">Separate Opt-out</td><td>Provider</td><td>£5,100,000 (Over whole 10-year appraisal period)</td><td>Y</td><td>Ongoing</td></tr>
<tr><td>Individual</td><td>£5,100,000 (Over whole 10-year appraisal period)</td><td>N</td><td>Ongoing</td></tr>
<tr><td>Recording a beneficiary's decision</td><td>Provider</td><td>£2,160,000 (Over whole 10-year appraisal period)</td><td>Y</td><td>Ongoing</td></tr>
<tr><td>Facilitating appointments</td><td>MaPs</td><td>£30,900,000 (Over whole 10-year appraisal period)</td><td>N</td><td>Ongoing</td></tr>
<tr><th colspan="5">Benefits</th></tr>
<tr><td colspan="5">Monetised consumer benefits have not been estimated due to a lack of available evidence on the extent to which improved information and consumer engagement leads to quantifiable savings outcomes for consumers.
However, we have been able to outline below potential non-monetised benefits that may arise from implementing the policy.</td></tr>
</table>

Consumers		Increasing individuals' awareness and understanding of their pension information and potential options in retirement. Supporting better retirement planning and decision making by individuals. Nine in ten appointment customers (91%) agree that Pension Wise helped them to consider their pension access options more thoroughly. A similar proportion (89%) felt they learned something new from using the service[24].		
Providers		A potential increase in purchases of retirement products due to increased consumer information and engagement.		
Total Costs to business		**Total Benefits to business**		**Total Impact**
One-off costs	£34,600,000	One-off benefits	£0	**-£34,600,000**
Ongoing costs (over 10 year appraisal period)	£10,300,000	Ongoing benefits	£0	**-£10,300,000**

EANDCB = £4,400,000 (Base year: 2020)

Sensitivity Analysis

56. When estimating familiarisation costs, we assumed the average time taken for a provider to familiarise with the policy would be 2 hours. We have tested the effects of a 50% decrease in hours for our 'low' estimate and 50% increase in hours for our 'high' estimate. A 50% decrease in hours needed to familiarise would reduce familiarisation costs to **£429,400** whilst a 50% increase in hours would estimate costs at **£1,286,700**.

57. Along with our 'best' estimates, we have provided 'high' and 'low' estimates to account for the sensitivity around some of the figures we have use in our estimation of our ongoing costs. The following paragraphs outline the different tests and changes made to estimate our overall 'high' and 'low' estimates:
    a. As explained in paragraph 26, the estimation that we have used for the number of pension savers who will be in scope of the Stronger Nudge requirements is based on FCA data for number of pots accessed for the first time and an average 1.5 pots per person. There is some uncertainty around whether we are overestimating or underestimating this figure so we have tested a 10% increase and 10% decrease in this figure when calculating our high and low estimates.

[24] Pension Wise Service Evaluation - https://maps.org.uk/2020/10/05/pension-wise-service-evaluation-2019-2020/

b. We have used research with pension providers to understand how long it will take to deliver the nudge, book an appointment and record information. Based on this research we have used the highest and lowest figures provided for each in our sensitivity analysis when calculating our high and low estimates.

c. As explained in paragraph 31, we have used the Stronger Nudge trials as our ‘best’ estimate for the percentage of pension savers who will accept a Pension Wise appointment. As this did not include the enhanced opt-out (which had a positive response), we believe this to be a conservative estimate of take-up so have kept the ‘low’ and ‘best’ estimate percentages at 11%. However, we have assumed a 20% take-up rate for our ‘high’ option of pension savers who will accept offer of PW appointment.

d. Taking into account these changes, we have estimated the ‘low’ ongoing cost to be **£5,500,000** over the 10-year appraisal period and the ‘high’ cost to be **£20,000,000**.

Impact on small and micro businesses

58. The pensions providers affected are typically ‘larger’ and ‘smaller’ providers, although there will be micro schemes that will face familiarisation costs as well. The government does not believe it would be appropriate to provide an exemption from the new Stronger Nudge requirements for any small and micro scheme because:

59. Failure to ensure that all members, regardless of the size of scheme, receive a Stronger Nudge to pensions guidance risks consumer detriment.

60. It is unlikely that the costs will pose a significant burden on even the smallest schemes. In fact, it is likely that the cost impacts will be proportionally smaller on small schemes. Smaller schemes are likely to provide bespoke communications given the small number of members and therefore are less likely to incur some of the costs a larger provider would face. Also given the tailored approach of micro and smaller, implementing the Stronger Nudge will most likely be classified in business as usual operating costs.

Wider Impacts

Costs to Individuals

61. The proposed new regulations may result in cost implications for individuals. The separate opt-out element of the policy will require the consumer to initiate a separate, active communication with the provider. This could be a phone call, email, letter, postal form, or digital form which is separate from the initial contact to seek access to their pension savings. As a result, the individual will likely incur a cost of sending this additional communication.

62. There may also be a monetary cost to individuals who use the digital and postal journey as they may have to book the Pension Wise appointment themselves as explained in paragraph 3. We have assumed that for those that book the Pension Wise appointment themselves, they will contact their provider to book an appointment through the telephone channel so the subsequent costs will reflect this.

63. Using the same estimation process used for calculating ongoing cost to business of opting-out and booking appointments by the different communication channels, we estimate the cost to all individuals of opting-out will be **£5,100,000** across the 10-year appraisal period as outlined in paragraph 49. This is because the individual will face the same amount of time on the phone as the provider so we assume the cost will be the same as for the provider.

64. The additional cost to individual of booking an appointment who received the Stronger Nudge by post or digitally is estimated to be **£220,000** over the 10-year appraisal period.

65. The additional cost to individuals who received the Stronger Nudge by post or digitally is estimated using the following method:

    c. Number of pensions savers that will accept an appointment (24,707[25]) * percentage that would have received the Stronger Nudge digitally or postal (0.27[26]) * additional time taken to book appointment by phone (0.17[27]) * average hourly wage (15.62) = £17,400.
    d. This calculation is repeated for all years in Table 2 to estimate a total cost to individual of booking an appointment at **£220,000**.

Cost to Money and Pension Service (MaPS)

66. The Money and Pensions Service (MaPs) provide Pension Wise appointments to pension savers who take up the offer of an appointment from their provider. The estimated cost to MaPs of delivering these appointments is approximately **£30,900,000** over the 10-year appraisal period.

67. We estimate that they will have to provide over 315,000 additional appointments over the 10-year appraisal period. The breakdown of these appointments per year is provided in Table 2[28] . These are then multiplied by a cost range for Pension Wise appointments provided by the MaPs.[29]

68. The cost to MaPs is excluded from the EANDCB.

[25] Based on figures from paragraph 46a
[26] Based on figures from paragraph 24
[27] Based on figures from paragraph 46
[28] Table 2: Estimation of pension savers referred to Pension Wise/ in scope of the Stronger Nudge requirements and appointments booked for 10 year period
[29] Data on appointment cost is unpublished.

Monitoring and Evaluation

69. The Pensions Regulator (TPR) would be responsible for monitoring and enforcing compliance with these proposed requirements. The businesses in scope would be required to report to The Pensions Regulator (TPR).
70. The Money and Pensions Service (MaPS) currently monitor usage of guidance services and publish a quarterly data dashboard showing the number of Pension Wise guidance appointments booked and attended[30]. They also publish a yearly evaluation survey tracking satisfaction with the Pension Wise service. These will enable us to track absolute increases in Pension Wise appointments.
71. Additionally, we propose that providers be required to record when a beneficiary confirms they have received Pension Wise guidance as a result of the offer to book an appointment, where a beneficiary completes the separate opt out procedure, and where a beneficiary opted out without having to complete the separate opt out procedure due to an exemption applying.
72. The Government have not put in a statutory review provision.

[30] MoneyHelper pension take up dashboard | The Money and Pensions Service (maps.org.uk)