Department for Work & Pensions	**Impact Assessment (Bill Final)**	
Title of measure		Legislating to help trustees ensure that transfers of pension savings are made to safe and not fraudulent schemes
Lead Department/Agency		DWP
Planned coming into force /implementation date		TBC
Origin (Domestic/EU/Regulator)		Domestic
Policy lead		Nada Balasingham
Lead analyst		Tara Nicholson
Departmental Assessment		Self-certified
Total Net Present Social Value (over 10year period): £177.6m	**Equivalent Annual Net Direct Cost to Business (EANDCB)(over 10 year period: £0.6m**	**Business Impact Status:** Non-Qualifying Regulatory Provision

Summary - Intervention and impacts

Policy Background

The Government is committed to protecting pension scheme members from being victims of pension scams. In his Autumn Statement 2016, the Chancellor announced that the Government would consult on a package of measures to tackle scams. One of the measures in the package included amending a members' existing statutory right to transfer their pension benefits to another pension scheme. Trustees or scheme managers (or pension providers acting on their behalf) can ensure, as far as reasonably possible, that transfers made are to safe and not fraudulent schemes (the "transfers measure"). The vast majority of respondents to the pension scams consultation supported the proposed transfers measure and the Government confirmed in its August 2017 response[1] to the consultation that it would bring forward legislation to implement this measure following the roll-out of the Master Trust authorisation regime in 2018-19.

Issue/Rationale for Intervention

Pension scams can cost pension scheme members their life savings and with little, or no opportunity to build their pension benefits back up it can leave them facing retirement with limited income (detail on the type of scams is set out in the additional detail section below). Research by Xafinity[2] in 2016 suggested that around 11% of pension transfer requests showed signs of scam activity.

Under Part 4ZA of the Pensions Schemes Act 1993[3], and subject to certain conditions (e.g. the member hasn't started to draw their pension), certain pension scheme members have a statutory right to transfer their pension benefits to another pension scheme. Currently, trustees or scheme managers (or service providers acting on their behalf) do not have a legal basis to refuse a transfer request if they have no evidence to support that the receiving scheme is a fraudulent scheme. The limits to the statutory right to transfer include that the transfer has to be to a registered pension arrangement to avoid a tax penalty being applied after the transfer[4] has been made.

While trustees or scheme managers (or personal pension providers acting on their behalf) can refuse a transfer request, their decision can be the subject of a complaint to the Pensions Ombudsman. A decision to refuse that isn't supported by robust evidence, even where there is a strong suspicion the destination of the transfer may be subject to a scam, can be overturned by the Ombudsman. Consequently, transfer

1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/638844/Pension_Scams_consultation_response.pdf
2 http://www.xafinity.com/c_m_s/posts/view/Xafinity-Group/2016/05/25/Possible_scams_in_11_of_pension_transfer_cases_finds_Xafinity
3 http://www.legislation.gov.uk/ukpga/1993/48/pdfs/ukpga_19930048_310815_en.pdf
4 HM Treasury provides tax-relief to savers. Restricting transfers to registered pension arrangement are there to safeguard tax relief provided to savers. Where transfers are to non-registered destination the member will experience a tax-charge of 55% of the value of the pension transfer.

requests can be progressed even where a scam is suspected. This has led to repeated calls from industry and others for stronger measures to protect pension scheme members from potentially fraudulent transfers.

Proposed Intervention
We propose to amend Part 4ZA of the Pensions Schemes Act 1993 (primary legislation) to enable changes to be made to the existing statutory right to transfer of pension benefits by pension scheme members (to be set out in subsequent secondary legislation). We plan to amend the statutory right to transfer so that it applies only if at least one of the following conditions regarding the transfer destination is satisfied. These are transfers to:

- pension schemes that are operated by a firm that is authorised and regulated by FCA; or
- authorised Master Trusts; or
- pension schemes where a genuine employment relationship between the member and the scheme employer can be established (background detail about this condition is set out in the additional detail section below); or
- Qualifying Recognised Overseas Pension Schemes (QROPS) in certain circumstances.

The proposed changes provide a strong safeguard, but are not intended to block legitimate transfers wherever possible. Pension scheme members who do not qualify for the statutory right to transfer their pension benefits between pension schemes under the proposed criteria will still be able to transfer. They can seek a discretionary transfer, where their scheme's rules permit this. However, even if the scheme's rules do not allow discretionary transfers the member can still, for example, transfer to an authorised Master Trust whose rules do allow discretionary transfers in order to then transfer their pension benefits to the scheme of their choice. The proposed changes to legislation is intended to provide a strong safeguard, but it is not intended to block legitimate transfers wherever possible. For further detail on the proposed process, please see annex A.

Intended Effects
The intended effect is to prevent pension benefits from being transferred to fraudulent destinations in order to prevent losses of retirement income.

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

Option 1 – Do nothing.
This option will not reduce the risk of scams pension scheme members falling victim to pension scams, which can be devastating and deny them the retirement they had planned and saved for. Action Fraud estimates that people who reported being a victim of a pension scam in 2017 lost on average £91,000[5]. This option will not meet industry and pensioner expectation that more will be done to help them and trustees safeguard pension transfers. The Government has already confirmed in its response to the pension scams consultation that it will implement this measure to protect pension scheme members.

This option, therefore, is not viable.

Option 2 – non legislative approach (produce further guidance on how to safeguard pension transfers)
Both the Pensions Regulator (TPR)[6] and Financial Conduct Authority (FCA)[7] have already produced considerable guidance for the industry and consumers on how to spot a pension scam. TPR has also made clear to trustees that effective due diligence is key to protecting people against scams. In addition, the Pension Scams Industry Group has produced a Code of Practice[8] for combating scams, which sets out robust due diligence processes for trustees and pension providers to follow, to help them identify pension

[5] https://www.actionfraud.police.uk/news/victims-of-pension-fraudsters-lost-an-average-91k-aug18
[6] http://www.thepensionsregulator.gov.uk/pension-scams
[7] https://www.fca.org.uk/scamsmart/how-avoid-pension-scams
[8] http://www.combatingpensionscams.org.uk/

scams. Despite this, people are still losing savings to scammers and the industry is still calling on the Government to help them safeguard pension benefits.

We have therefore concluded that the non-legislative approach is insufficient to meet the policy objective to protect pension scheme members from scams.

Option 3 - Legislate to help trustees ensure transfers are made to safe and not fraudulent pension schemes
By amending the existing statutory right to transfer to help trustees (or pension providers acting on their behalf) to ensure that transfers of pension benefits are made to safe and not fraudulent schemes, the Government will meet industry expectation and the commitment it gave to tackle scams and protect consumers.

This is, therefore, the preferred option.

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

Impact on Business
Impacts will depend on the policy detail, which will be set out in subsequent regulations (secondary legislation) and which will be subject to consultation. Based on how we currently envisage the criteria working in practice and certain assumptions, we provisionally assess the Equivalent Annual Net Direct Cost to Business (EANDCB) to be approximately £0.6 million. The Department for Work and Pensions (DWP) will produce a revised assessment of the EANDCB and other impacts at the secondary legislation stage, which will be subject to consultation, if we envisage any changes to the assessment presented in this impact assessment.

Impact on Members
We expect there to be a significant personal benefit for the relatively small minority of pension scheme members who would have lost money through pension scams. Action Fraud estimate the average loss of pension benefits because of scams to be £91,000 per member. As a reasonable estimate, we anticipate that by stopping pension scams for this small minority of pension scheme members, they would benefit from retaining on average, £91,000 in their pension pot.

There will be a cost to members to provide the relevant information required for a transfer to a QROPS or where an employment link needs to be established. Based on how we currently envisage these criteria working in practice and certain assumptions, we estimate it would cost an individual £3.91 to locate and send evidence of the employment link, and £4.49 to provide and send the required evidence for a transfer to a QROPS to establish the residency conditions. This is significantly smaller than the potential amount lost to a pension scam. Based on the estimated number of transfers that are requested each year this gives a total cost to pension scheme members of £301,000 in any given year.

Departmental Policy signoff (SCS):	Hilda Massey	Date: 12/03/2019
Economist signoff (senior analyst):	Joy Thompson	Date: 12/03/2019
Better Regulation Unit signoff:	Prabha Mistry	Date: 11/03/2019

Additional detail

A brief description of what kind of scams tend to be prevalent in this context.
Pension scams can take a number of different forms. Traditionally, they were aimed at pension scheme members who had not yet reached minimum pension age, and purported to provide a way in which members could access their pension benefits early without incurring a tax penalty. This is commonly known as pension liberation fraud. Since the introduction of the pension freedoms in April 2015, there has been a change in

the rules as to when scheme members will be able to access their pension benefits without incurring a tax penalty. A more common fraud model now seeks to entice members to transfer their pension benefits into seemingly legitimate arrangements. They are then advised to invest in fraudulent esoteric investments with unrealistic investment returns, as well as being offered direct access to the pension benefits. A variation might be where the individual is encouraged to utilise the pension freedoms to withdraw a lump sum from their pension into their bank account and then is advised to invest their money into fraudulent investments.

Establishing a genuine employment link – additional background information

This condition is about allowing trustees to establish a link between the member and the employer participating in the scheme the member wants to transfer their fund to, and between the participating employer and the receiving scheme. Exact detail will be confirmed at later legislative stages, but provisionally we envisage members will be required to provide payslips and bank statements over a three month period, in which the level of earnings in each of those months must be at least equal to the National Insurance lower earnings limit.

The pension provider of the ceding scheme will need to obtain the schedule of contributions or payment schedule (showing both employer and member contributions) from the employer as well as a letter in which the employer states they are participating in the receiving scheme and employ the member.

Establishing a transfers to a QROPs – additional background information

People who are transferring to a QROPS for employment reasons (i.e. they want to transfer their UK pension to the pension scheme of their new employer) will need to satisfy the employment link conditions.

While we are part of the EU or during any implementation period that is agreed, a condition will apply that where a transfer is being made to an EEA QROPS both the member and the QROPS will need to be in the EEA though not necessarily the same EEA country.

Where the transfer is to a QROPS based in a non-EEA country, the member will need to be able to demonstrate that they have been residing in the same country in which the QROPS is based and have done so for at least six months. It will be for the trustees of the ceding scheme to determine what evidence they accept from the member proving this residency requirement. Following the introduction in 2017 of HMRC's overseas tax charge, trustees or pension providers acting on their behalf, should already be assessing residency requirements relating to the tax charge.

Potential scale of the underlying issue and impacts of the intervention

- One of the destinations specified by the policy is to FCA regulated schemes. We have made no assumption on the number of transfers into these schemes, as we are not introducing any additional checks in regards to FCA regulated firms and therefore there is no additional burden to business.
- According to data provided by The Pensions Regulator (TPR) to DWP, in 2018 there were an estimated 60,000 transfers out of occupational DC pension schemes (including fewer than 1,000 out of micro schemes). According to TPR data[9], in 2017/18 there were estimated to be 100,000 transfers out of DB occupational schemes. We do not have any information on the number of transfers out of DC contract based schemes.
- We do not know the destination of the above transfers. However, as the total number of transfers in and out and pension schemes must be equal, we have made the assumption that the number of transfers in and out of occupational pension schemes are equal, and the number of transfers in and out of contract based schemes are equal.
- We do not have any data on the number of transfers out of DC contract based schemes. However, if we assume that this number is equal to the number of transfers going into contract-based schemes (which we have established have no additional burden of the legislation, as they are FCA regulated)

[9] An FOI: https://www.thepensionsregulator.gov.uk/en/about-us/freedom-of-information-(foi)/number-of-transfers-out-of-db-schemes-in-2017-18

then we do not need to include this figure in the total number of transfers, which will be impacted by the legislation.

- Therefore, the number of transfers the figure of 160,000, as calculated above.

Expected number of transfers impacted

DC Trust	60,000
DB	100,000
DC Contract	-
Total	**160,000**

- Of the total assets transferred in 2017/18, 65% of these were to Master Trusts[10]. At this stage, we are using this percentage as a proxy for the percentage of transfers into Master Trusts. We therefore assume that at a minimum, this proportion of transfers would be allowed at this stage without any further checks, and therefore 104,384 (160,000*0.65) transfers would go into Master Trusts. The remaining 55,616 (160,000 – 104,384) transfers will be subject to the earnings and employer link checks under the new rules.
- Xafinity research[2] showed that around 11% of transfer requests showed signs of scam activity, albeit that in the majority of these cases the transfer did not go ahead. Assuming therefore that these suspected scam transfers are not included in the 160,000 transfers reported by TPR, the total number of transfers had those gone ahead would be 179,775 (160,000/0.89= 179,775).
  We assume that the stopped 11%, equivalent to 19,775 (179,775*0.11) transfer requests, would not be seeking a Master Trust as the receiving scheme, and will therefore be subject to the checks for the earnings and employer link under the new rules. We therefore assume 74,216 (55,616+19,775) transfer requests will be subject to the earnings and employer link checks. No assumption has been made on the impact of the regulations in reducing scam activity. If there were an impact, this would be expected to reduce the 19,775 transfer requests which showing scam activity, and therefore the number of earnings and employer checks.
- In 2017/18 there were 4,700 transfers into QROPS[11]. These will either have come from an occupational or contract based pension scheme. If they have come from an occupational pension scheme, then they are accounted for in the total number of transfers we have explained above (160,000). In the absence of any data on where the transfers have come from, and given that the percentage from occupational schemes could be anywhere between 0 and 100%, we have taken the mid-point and assumed 50% of transfers came from occupational schemes and 50% came from contract based schemes. Therefore, we are assuming that 2,350 of the transfers into QROPs have come from occupational pension schemes.
- Of these 2,350 transfers into QROPs, some may be as a result of an employee moving to a new employer overseas and therefore would be subject to the employment link as opposed to the QROPs specific regulation. In the absence of data on the number of transfers which are as a result of moving to an abroad employer, and given that this percentage could be anywhere between 0 and 100%, we have taken the mid-point and assume that 50% of transfers into QROPS (1,175) will be subject to the employment link.

	Cumulative number of transfer requests
Total number of transfers out of occupational schemes	160,000
Minus the 65% (104,384) of the above transfers going into Master Trusts	55,616

[10] The Pensions Regulator data.
[11] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/730368/QROPS_July_2018.pdf

Plus the additional 11% (19,775) of transfer requests which were suspected of scam activity	75,391
Minus the number of transfers into QROPs (2,350)	73,041
Plus the number of transfers into QROPs which will be subject to the employment link criteria (1,175)	74,216
Total number of transfer requests subject to the employment link criteria	**74,216**

Business impacts

Impact on Pension Providers/Schemes

Administration costs

If providers/schemes need to check a list of authorised Master Trusts, then we assume this will not add any additional requirement to schemes. We assume that schemes currently broadly follow the industry Code of Good Practice[12] that involves initially checking internal lists of known pension schemes. Therefore, as we assume that schemes will already be checking these lists there will be a negligible additional burden.

If the process of establishing the employment link involves the pension provider sending a letter to the employer and to the member, and then processing this information, the estimated cost for this would be **around £420,000**. This is based on:

- 2 letters being sent (one to the member and one to the employer) at a price of £0.79 per letter[13], for each of the 74,216 transfer requests. This gives a cost of around £117,000.
- A period of time spent writing (which in theory can be standardised) and processing each of the two letters at a wage of £19.48[14] for a pension administrator's time, taken from the Annual Survey of Household Earnings (2017)[15]. At this stage, it is difficult to quantify with certainty how long this task would take until policy detail is confirmed, and more evidence is available. However, we have made an arbitrary assumption that it would take 15 minutes for this task, as it is a relatively simple task for an administrator to perform and each letter need not be long in length. This gives a cost of around £723,000.
- Assuming under the counterfactual that 50% of schemes/providers will already be doing something similar to this before processing a transfer (while complying with the Code of Good Practice) this gives a cost assumption of 0.5*£840,000, therefore around £420,000. The percentage of schemes/providers complying with the Code of Good Practice could be anywhere between 0% and 100%. In the absence of data, we have taken the midpoint and made an assumption that 50% of schemes will be following this process already, and therefore assume that 50% of transfer requests would already be undertaking this process.

[12] http://www.tisa.uk.com/publications/875_180605CombatingPensionScamsCodeVersion2FINALsigned.pdf
[13] Royal mail website quotes 67p to send a letter first class, A previous impact assessment from 2014 (https://www.legislation.gov.uk/ukia/2014/406/pdfs/ukia_20140406_en.pdf) quoted 4p per envelope and 8p to print (which is already updated to show costs in 2020).
[14] The hourly wage for a pension administrator is £15.34, from the ASHE survey 2017 revised. This has been uplifted by 27% to account for non-wage costs as proposed in the HM Treasury's Green Book.

[15]ASHE 2017
http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation2digitsocashetable2

If the process for transferring into a QROPs involves the trustee or provider sending a letter to the scheme member wanting to transfer their pension benefits, then the estimated cost for this would be **around £15,000.** This is based on:

- In 2017/18 there were 4,700 transfers into QROPS[11]. As discussed above, we are assuming that 50% of these have come from occupational schemes (2,350), and 50% from contract based schemes (2,350). Within each of these, 50% will be subject to the employment link and are therefore already accounted for under the employment link criteria (2,350)[16]. Therefore, the remaining 2,350 transfers are into QROPs, which are not subject to the employment link, and therefore will be subject to the QROPs conditions.
- 1 letter sent for each transfer at a cost of £1.37 per letter[17] gives an estimated cost of around £3,000.
- 15 minutes to write and process each letter by a pension administrator, at a wage of £19.48, as discussed previously. This gives an estimates cost of £12,000

Familiarisation costs

As mentioned earlier, there is a lot of information already available to providers/schemes, so we assume most will already be following some of the proposed regulations and are therefore familiar with it. Familiarisation will only be an additional cost for professionals over the baseline scenario where:

- They are asked for a transfer of pension benefits by a member; *and*
- They have been asked for a transfer by a member previously and are therefore already familiar with the current process. If a scheme has never had to complete a transfer we assume there would be no additional costs for familiarisation over the baseline since the new documentation would be a similar length, if not simpler and the trustee / administrator would never have read the document before the transfer request.

We estimate a cost to familiarisation of **around £463,000**. This is based on:

- Yearly scheme returns received by The Pensions Regulator estimate there are around 200 unique service providers for Defined Contribution (DC) trust based schemes, around 185 contract based schemes who administer DC pensions, around 1,000 self-administered schemes (with 12+ members)[18] and around 20,000 self-administered micro schemes (with 2-11 members)[19] who will all need to undertake familiarisation.
- The Pensions Protection Fund (PPF) Purple Book[20] estimates there are around 5,500 private sector Defined Benefit (DB) schemes. Data provided by TPR shows that around 80% of these schemes use a service provider. As many service providers administer both DC and DB schemes, we are assuming that familiarisation for these schemes is already accounted for by the unique 200 service providers. Therefore, only the around 1,150 self-administered schemes will need to undertake familiarisation.
- For each of these, we have made an arbitrary assumption that it would take an individual 60 minutes to familiarise themselves. At this stage, it is difficult to quantify with certainty how long this task would take until policy detail is confirmed and more evidence is available. Given a wage of

[16] Occupational schemes 50%*2,350=1,175. Contract based schemes 50%%2,350=1,175. Total subject to employment link regulation is 1,175+1,175=2,350.
[17] Royal mail website quotes £1.10 to send a letter internationally via economy internal post. A previous impact assessment from 2014 (https://www.legislation.gov.uk/ukia/2014/406/pdfs/ukia_20140406_en.pdf) quoted 4p per envelope and 8p to print.
[18] This data is unpublished and provided directly from TPR. The data is an estimate as schemes are only required to provide scheme returns every three years, therefore the data could be up to 4 years old and the figure could be slightly different.
[19] http://www.thepensionsregulator.gov.uk/doc-library/dc-trust-presentation-of-scheme-return-data-2018.aspx, File 5
[20] https://www.ppf.co.uk/sites/default/files/file-2018-12/the_purple_book_web_dec_18.pdf

£19.48 for a pension administrator (with the larger administrators needing 5 individuals[21]) to familiarise themselves this gives an estimated cost of around £463,000.

Additional revenue to schemes/providers through charges of member's money remaining in their pension pots

- If money lost to scammers had been retained in pension benefits providers would benefit from additional pension charges paid by members. In 2017/18, there were 253 cases of pension fraud recorded by Action Fraud, and a total of over £23million lost to pension scammers[22]. Based on the average pension charge of 0.57%[23] multiplied by the estimated amount that was lost to scammers in 2017/18 gives a potential benefit to providers of **around £132,000.**

Given the above costs of around £420,000 for the employment link and £15,000 for QROPS administration costs, £463,000 in familiarisation costs gives a total cost to pension providers and schemes of £898,000 in year 1, and £435,000 in all subsequent years (as familiarisation costs won't apply). With an expected benefit of retaining member's pots of £132,000 gives an **expected impact on pension providers/schemes of £766,000 in year 1, and £303,000 in all subsequent years.**

Sponsoring employers

If the process to prove the employment link were as described above, the employer would be contacted by either the trustee or the provider of the ceding scheme to provide evidence of the employment link. If we assume the employer must provide both a standard letter stating that they are the sponsor of the scheme the member wishes to transfer their pension benefits to, and that they must also provide a copy of the schedule of contributions or payment schedule to the trustee or provider. We estimate this would cost employers **around £239,000**. This is based on:

- 15 minutes to complete both a standard letter confirming and to locate a copy of the schedule of contribution or payment schedule, at a wage of a pensions administrator of £19.48, as discussed above. This gives a cost of around £361,000.
- 2 letters being sent at a price of £0.79 per letter[13] for each of the 74,216 transfer requests. This gives a cost of around £117,000.
- Under the current process this will already be supplied by some employers where providers follow the Code of Good Practice. We have assumed that 50% of transfer requests will already have providers/managers communicating with employers and employees to prove the existence of an employment link (as explained earlier). Therefore, logically we also assume that 50% of transfer requests will involve an employer confirming to that provider that they are the sponsoring employer. This gives an assumption of £479,000*0.5, therefore £239,000[24].

We therefore expect **the impact on sponsoring employers to be around £239,000.**

Impacts on members

Members retaining their pension pot

[21] Information provided during the previous consultation, which we will test during the legislative process.
[22] https://www.actionfraud.police.uk/news/victims-of-pension-fraudsters-lost-an-average-91k
[23] DWP Pension Charges Survey 2016 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/652086/pension-charges-survey-2016-charges-in-defined-contribution-pension-schemes.pdf
[24] Note slight difference in figures is due to rounding.

The rationale for policy intervention is to protect savers from pension scams, and ultimately prevent lost retirement income. Therefore, we expect there to be a significant personal benefit for the relatively small minority of pension scheme members who would have lost money through scams in the counterfactual scenario without the proposed regulations. As set out above, the average loss per member may be £91,000[4], which could be the benefit where a scam is prevented. This figure, calculated by Action Fraud, is based on a total of 253 victims reported to Action Fraud that they had lost more than £23 million to pension scammers in 2017. This figure illustrates the potential benefit to members of retaining their pension pot if all scams were to be prevented.

Administration Costs

In order to establish an employment link and to substantiate transfers to a QROPS, the member will have to supply certain documents. If we assume for the employment link that a member has to supply payslips and bank statements for three months, we expect there to be a small time cost to collate this information, and then the cost of £0.79[13] to send one envelope containing all this information.

If we assume to transfer into a QROPS a member would need to supply some proof of residency, we expect there to be a small time cost to locate this information, and then the cost of £1.37[17] to send one envelope containing this information.

Although there is a time cost attached to supplying this information, we expect this time to be relatively short as these documents are often required for other purposes and members are therefore likely to have knowledge of where they are. Therefore, we do not expect this cost to be overly burdensome relative to other tasks members must routinely carry out in relation to their pension benefits.

Small and Micro Business Assessment

The costs to business fall predominantly on pension schemes and providers, and in certain circumstances on employers- including small and micro businesses who operate small and micro pension schemes. However, assessing the impact of the regulations on this group is difficult, as it is not necessary that small and micro pension schemes correspond to small and micro businesses. For example, many large firms may run Executive Pension Plans with only a few members. Similarly, small employers may enter their staff in larger master trust schemes. For the part of the legislation that applies to pension schemes and providers, as there is currently no robust evidence to link pension scheme size to employer size, it is difficult to accurately assess the impact on small and micro businesses.

All pension schemes within the industry will need to familiarise themselves with the regulations, although many use administrators who will do this instead. We estimate that 19,658 micro schemes will need to familiarise themselves with the regulations. This is about 88%[25] of the unique businesses who will need to familiarise, and therefore the majority of familiarisation costs fall to micro schemes. However, this is not disproportionate to the industry as a whole, where 80%[26] of schemes are micro schemes. Those schemes, which are self-administering, will pay a familiarisation cost estimated to be £19.48, while those who use an administrator this cost will be met by the administrator (whose service they are already paying for). Therefore, we do not believe familiarisation to have a disproportionate impact on micro schemes.

Administration costs will arise each time a member wishes to transfer their pension pot to one of the specified destinations, of which we estimate 160,000 per year. We estimate only 0.6% of these member transfers to be from a micro scheme[27]. This is not disproportionate to the industry as a whole where only

[25] 19,658/22,237=0.88 (figures previously calculated above)
[26] 29,900 micro schemes/37,410 scheme [29,900 micro schemes, 1,280 DC trust schemes, 740 hybrid schemes, 5,500 DB schemes]=0.8 (figures from TPR DC trust stats: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-presentation-of-scheme-return-data-2018-2019; and PPF purple book: https://www.ppf.co.uk/sites/default/files/file-2018-12/the_purple_book_web_dec_18.pdf)
[27] 1,000/160,000=0.006

0.5% of members are in micro schemes[28]. Given the average number of 4 members in a Small Self-Administered micro scheme (SSAS)[29], we anticipate up to around 250 schemes per year[30] will be subject to administration costs.

Certain employers will bare an impact of the legislation where they need to provide evidence of the employment link to facilitate the transfer. This will only apply to employers in a situation where an employee requests a statutory transfer, and therefore will not apply to all employers. We have no evidence regarding the destination of the transfer requests size of employer, and no information to suggest that a disproportionate number of member transfers will be moving to small employer's schemes. Therefore, we do not believe there to be a disproportionate impact on small and micro businesses of the employment link criteria on employers.

Monitoring and Evaluation

We will work with TPR and the industry in order to understand and review the post implementation impact.

Summary of total costs and benefits[31]

The total estimated cost for this measure in the first year is **around £1m**, which is comprised of £463,000 in familiarisation costs, £674,000 in administration costs (£435,000 to providers, £239,000 to employer) and savings to business of £132,000.

Costs in each subsequent year would be **around £543,000**, with £674,000 in administration costs (as above) and savings to business of £132,000. Familiarisation costs would not apply in subsequent years.

The costs and benefits to members have not been included in the final costs and benefits as they are outside the scope of the business impact target.

The estimated annual net direct cost to business (EANDCB) in any one year is **£0.6m.**

Table of Impacts

Costs				
Type	**Affected Party**	**Amount**	**In scope of EANDCB**	**Ongoing/ One- off**
Familiarisation	Provider	£463,000	Y	One- off
Administration	Provider	£435,000	Y	Ongoing
	Employer	£239,000	Y	Ongoing
	Individual	£290,000	N	Ongoing

Benefits				
Type	**Affected Party**	**Amount**	**In scope of EANDCB**	**Ongoing/ One-off**
Charges on retained pots	Provider	£132,000	Y	Ongoing
Retained pension pots	Individual	£23,000,000	N	Ongoing

[28] 86,000/16,819,000=0.005 (figures from TPR DC trust stats: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-presentation-of-scheme-return-data-2018-2019)
[29] 87,000 members/19,658 schemes=4
[30] 1,000/4=250
[31] Figures may not line up exactly due to rounding

Total Costs		Total Benefits		Total Impact
Gross costs	£1,427,000	Gross benefits	£23,132,000	
EANDCB (year 1)	£1,137,000	EANDCB (year 1)	£132,000	**£1,000,000**
EANDCB (subsequent years)	£674,000	EANDCB (subsequent years)	£132,000	**£543,000**

Sensitivity Analysis

There is considerable uncertainty associated with the estimates, given the lack of available evidence. The most sensitive assumptions are those on baseline compliance with the Code of Good Practice, the number of transfers, the scope of familiarisation, and amount of time required to perform the relevant administrative tasks.

Compliance with Code of Good Practice

Administration costs are the key driver of the costs in all years of the policy except for the first. The most sensitive estimate is that 50% of schemes already complying with the regulations under the code of good practice. As discussed above, this is an arbitrary figure, taking the mid-point of the percentage of schemes who may already be compliant. This could in theory range from all schemes (and in following through all employers) being compliant already to none. Therefore, if all schemes (and employers) were compliant already under the code of good practice would give a cost of 0 to both. If no schemes (employers) were compliant under the code of good practice, this would give a cost of around £840,000 to schemes/providers, and £420,000 to employers. The actual cost could be anywhere within this range, and our best estimate given the lack of evidence would be the mid-point.

Scope of familiarisation

The cost of familiarisation is the key driver for the costs in the first year of the policy. The main sensitivity around this is the number of schemes/providers who will need to undertake familiarisation. We are confident in the figures for DC schemes, which were provided by TPR and are based on the annual scheme return data they collect[32]. However, with a lack of data available on the number of DB schemes who use a service provider (and the overlaps between these service providers and those used by DC schemes) there is a considerable amount of uncertainty around the familiarisation scope. We have made a conservative estimate that all DB scheme using a service provider are already accounted for in terms of familiarisation. However, in a situation where none of them are already accounted for and they all self-administer, this would mean around all 5,500 DB private sector schemes would need to familiarise. This would increase the total cost of familiarisation for all schemes in year 1 from around £463,000 to around £550,000.

Time assumptions

The two key time estimates used are the amount of time required for familiarisation and the time required to produce evidence of the employment link and QROPs.

[32] Although scheme returns are provided to TPR each year, a scheme is only required to update their information every 3 years. Therefore, this data could potentially not reflect the current market, although as changes are not significant year on year is still a good indication of the market.

For familiarisation, we estimate it would take 1 hour per scheme, with five individuals needing to familiarise within larger providers. This estimate was based on information provided by a small number of stakeholders during the previous consultation[33]. This estimate could change if the policy detail and length of regulations change. If this estimate were to increase to 2 hours per scheme, this would double the cost of familiarisation to £926,000. This estimate could increase to a reasonably large amount of time and the impact on the policy would remain below the £5m de minimis. If familiarisation were to take a full day (8 hours), this would bring the cost of familiarisation to £3.7m. However, the total impact in year 1 would remain below the de minimis at £4.3m.

It is difficult to estimate the amount of time required to undertake the administrative tasks due to a lack of evidence, therefore we have made an arbitrary assumption that it would take 15 minutes of a pension administrators time, 15 minutes of an individual's times and 15 minutes of an employers time to collate the relevant documents (as described above). This is loosely based on the expected simplicity of the requirements. However, in practice it could take longer than we have estimated, in particular for members, which could vary significantly per individual. If, for example, we took a liberal estimate that it took an hour for each of the above tasks, this would increase the total impact to £2.7m in year 1 and £2.2m in all subsequent years.

Number of transfers

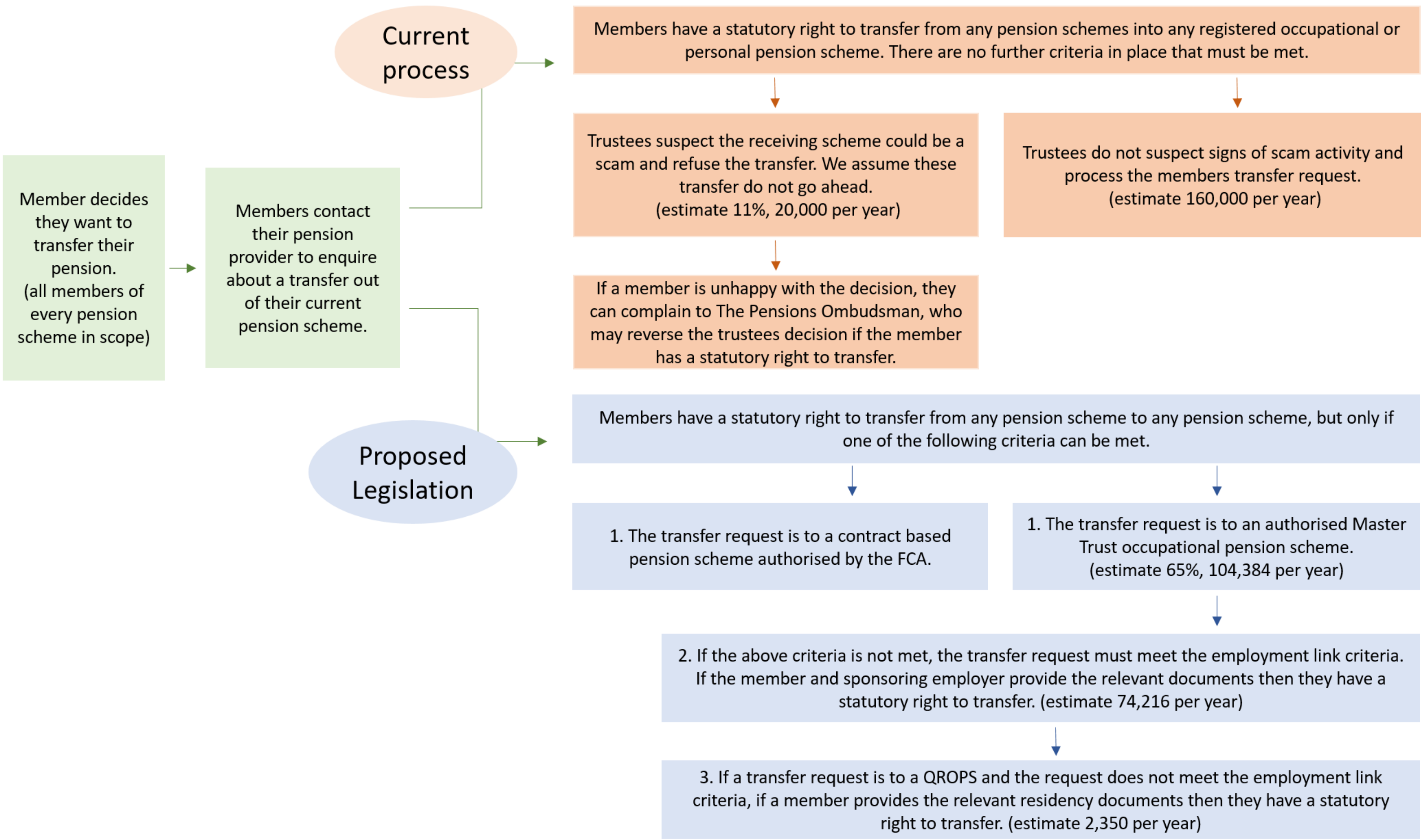
The number of transfers is a key cost assumption. There are a number of caveats to this assumption that should be taken into account. Mainly, we do not have data for the number of transfers into DC and DB occupational pension schemes and are therefore using transfers out of DB and DC occupational pension schemes as a proxy, therefore the figure has potential to fluctuate. Transfers out of DB pension schemes April 17-March 18 was estimated to be 100,000. Transfers out of DC occupational pension schemes January 18-December 18 was around 60,000. This gives a total number of transfers of 160,000.

If we assume that this figure increased by 10%, then we would expect there to be 176,000 transfers per year. This would increase the total cost of the measure to £1.07m in year 1 and £610,000 in all subsequent years. If we assumed a decrease of 10%, then we would expect there to be 144,000 transfers per year. This would decrease the total cost of the measure to £939,000 in year 1 and £476,000 in all subsequent years. The percentage increase on the number of transfers would remain within the £5m de minimis up to an increase of 650%.

Therefore, given the above ranges, the policy still remains low cost in relation to the £5m de minimis.

[33] https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation

Annex A


Current process
Members have a statutory right to transfer from any pension schemes into any registered occupational or personal pension scheme. There are no further criteria in place that must be met.
Trustees suspect the receiving scheme could be a scam and refuse the transfer. We assume these transfer do not go ahead. (estimate 11%, 20,000 per year)
Trustees do not suspect signs of scam activity and process the members transfer request. (estimate 160,000 per year)
If a member is unhappy with the decision, they can complain to The Pensions Ombudsman, who may reverse the trustees decision if the member has a statutory right to transfer.
Member decides they want to transfer their pension. (all members of every pension scheme in scope)
Members contact their pension provider to enquire about a transfer out of their current pension scheme.
Proposed Legislation
Members have a statutory right to transfer from any pension scheme to any pension scheme, but only if one of the following criteria can be met.
1. The transfer request is to a contract based pension scheme authorised by the FCA.
1. The transfer request is to an authorised Master Trust occupational pension scheme. (estimate 65%, 104,384 per year)
2. If the above criteria is not met, the transfer request must meet the employment link criteria. If the member and sponsoring employer provide the relevant documents then they have a statutory right to transfer. (estimate 74,216 per year)
3. If a transfer request is to a QROPS and the request does not meet the employment link criteria, if a member provides the relevant residency documents then they have a statutory right to transfer. (estimate 2,350 per year)