Department for Work & Pensions	Impact Assessment (Bill Final)	
Title of measure		Declaration of Intent
Lead Department/Agency		DWP
Planned coming into force /implementation date		TBC
Origin (Domestic/EU/Regulator)		Domestic
Policy lead		Mary Collins
Lead analyst		Eleanor King
Departmental Assessment		Qualifying Regulatory Provision
Total Net Present Social Value (over 10year period) (2016 prices): Not quantified at this stage.	**Equivalent Annual Net Direct Cost to Business (EANDCB)(over 10 year period in 2016 prices): Not quantified at this stage.**	**Business Impact Status: Not quantified**

Summary - Intervention and impacts

Policy Background – Issue – Rationale for Intervention – Intended Effects

The Department's White Paper 'Protecting Defined Benefit Pensions'[1] identified a need for stronger proportionate measures to safeguard members' pensions and the Pension Protection Fund (PPF) from certain corporate transactions undertaken by a small minority of employers that may put their Defined Benefit (DB) pension scheme at risk. The rationale for intervention is to reduce the risk to DB pensions schemes by ensuring corporate planners[2] give due consideration to the impact on the pension scheme and enable trustees and the Pensions Regulator (TPR) to take action where necessary to protect the pension scheme.

The intention is to require corporate planners to make a Declaration of Intent setting out information in the form of a statement about the transactions and how any detriment to the pension scheme is to be mitigated. This would be issued to TPR and coped to the trustees of the pension scheme. The Declaration of Intent would be required in respect of specific employer-related notifiable events[3]. It is intended to capture transactions with the highest risk to DB pension schemes. The information in the Declaration of Intent will enable trustees and TPR to take action where they believe the mitigations are insufficient.

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

Option 0- Do nothing: no change to awareness of trustees and TPR of risk to pensions and therefore stated intentions not met.

Option 1- Legislate for mandatory clearance: the Government's Green Paper[4] explored the possibility of designing a system of mandatory clearance by TPR of certain corporate transactions, but the majority of respondents were unsure this could be achieved without significant detriment to legitimate business activity. This option was therefore not considered in the Government subsequent consultation on *A Stronger Pensions Regulator*[5].

Option 2- Legislate to introduce a Declaration of Intent: the preferred option - will be less cumbersome than mandatory clearance and meet the stated intention. A legislative option is necessary, as there are no existing primary powers which could be used to require a Declaration of Intent from corporate planners to the trustees of the DB pension scheme.

---

1 Protecting Defined Benefit Pension Schemes- Link

2 Those with responsible for corporate transactions - usually the sponsoring employer of the pension scheme or the parent company of the sponsoring employer

3 events that employers must notify to TPR

4 Defined benefit pension schemes: security and sustainability - GOV.UK

5 https://www.gov.uk/government/consultations/protecting-defined-benefit-pension-schemes-a-stronger-pensions-regulator

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

Businesses will be required to familiarise with the new legislation to require a Declaration of Intent (DoI). This legislation affects all sponsoring employers/parent companies with DB pension schemes who are undertaking specified corporate transactions. The costs to these employers include:

1. Familiarisation costs - which we assume, are incurred by all 14,000 sponsoring employers of DB pension schemes. This is estimated to be approximately £0.7m.
2. Ongoing costs - once secondary legislation is introduced those sponsoring employers/parent companies who choose to undertake such transactions will incur costs of producing the Declaration of Intent. We have provided indicative figures below for what we expect the cost of complying could be. At this stage, we have only been able to quantify some of the potential costs- of what we have quantified, our indicative figures estimate the cost could be just under £1 million per year.

TPR will also experience an increase in their operational costs as a result of them having to review and respond to Declarations of Intent. These have not been quantified at this stage because the detail of the requirements will be set out (and assessed) through subsequent secondary legislation.

Introduction of the Declaration of Intent is intended to help protect DB pension scheme members' benefits and in turn reduce the likelihood that a scheme will enter the PPF, also reducing costs to the PPF (and potentially benefitting businesses indirectly through a reduction in the pension protection levy). In addition, businesses may benefit from increased clarity on when to consider impacts on the scheme. TPR may also benefit from efficiency savings as a result of being told earlier when businesses are planning on completing certain corporate transactions.

Departmental Policy signoff (SCS): Joanne Gibson Date: 28/02/2019

Economist signoff (senior analyst): Joy Thompson Date: 28/02/2019

Better Regulation Unit signoff: Prabhavati Mistry Date: 28/02/2019

Additional detail – policy, analysis, and impacts

Policy options considered, including alternatives to regulation

1. Policy objective

The policy objective is to guard against risks to the DB pension scheme and the Pension Protection Fund (PPF) arising from corporate decisions, which neither trustees nor TPR can control.

2. Description of options considered

Option 0: Do nothing

A non-legislative approach would mean that there was no requirement for those responsible for corporate transactions to engage with trustees and set out how they propose to mitigate any detrimental impact caused by the proposed transaction on the DB pension scheme. This may result in the trustees and TPR being unaware of the risk to the pension scheme as a result of the transaction and place members' pensions at risk. Also this option would not deliver the Department's White Paper[6] commitment to put in place a requirement for a Declaration of Intent. It was therefore decided to pursue a legislative approach.

Option 1: Legislate to introduce a targeted mandatory clearance for 'specific' corporate transactions.

The majority of respondents to the Green Paper consultation question about the introduction of a requirement for mandatory clearance from TPR agreed this would deter or delay the

[6] Protecting Defined Benefit Pension Schemes- Link

sponsor's legitimate business transactions. While some elements of this option are being taken forward, the intention is to provide an approach that is less cumbersome for sponsor employers by supplementing the existing Notifiable Events Framework[7] with the proposed Declaration of Intent.

Option 2: (the preferred option) – Legislate to introduce a Declaration of Intent (DoI).

The Government consultation, 'Protecting Defined Benefit Pension Schemes – A Strong Pensions Regulator'[8] made the case for introducing a Declaration of Intent as a more proportionate and less burdensome measure than applying a mandatory clearance regime to all sponsoring employers of DB pension schemes. Respondents were fairly evenly divided on the proposal for the introduction of a Declaration of Intent.

This option is to put in place a requirement for sponsoring employers or parent companies of DB pension schemes to make a Declaration of Intent to TPR and copy this to the trustees of the pension scheme, setting out information on specified corporate transactions and how any detriment to the pension scheme is to be mitigated. Sponsoring employers or parent companies will also be required to engage with trustees to assess the impact of a proposed transaction on the pension scheme. This will enable trustees to engage more effectively with TPR. It will also enable TPR to signpost those responsible for corporate transactions to the clearance process[9] where appropriate.

Primary legislation will set out the purpose of the Declaration of Intent, who is responsible for completing it and provide for regulations to set out the content and any further detail, including the corporate transactions that would trigger a requirement for a Declaration of Intent.

The specific corporate transactions that would trigger a Declaration of Intent are to be defined as employer-related notifiable events in secondary legislation. Taking account of the responses to the consultation, these will initially be the:

a) Sale of controlling interest in a scheme employer (an existing notifiable event set out in regulation 2(2)(f) of The Pensions Regulator (Notifiable Events) Regulations 2005);
b) Sale of the business or assets of a sponsoring employer (new notifiable event to be introduced in secondary legislation); and
c) Granting of security in priority to the scheme on a debt to give it priority over debt to the scheme (new notifiable event to be introduced in secondary legislation).

Primary legislation will also set out the penalty for non-compliance with the Notifiable Events Framework and the requirement for a Declaration of Intent. It is already mandatory in the baseline scenario to comply with the Notifiable Events Framework- the impact of applying a civil penalty to this existing requirement is assessed in a separate Impact Assessment[10].

3. Evidence behind the rationale for intervention

The Pensions Protection Fund (PPF) was established in 2005 to pay compensation to members of eligible DB pension schemes where the sponsoring employer becomes insolvent. In such circumstances, when schemes do not have sufficient assets to secure

[7] Notifiable Events Framework consists of: Regulations detailing notifiable events; Directions that TPR may issue to limit the circumstances in which notification is required and a Code of Practice.

[8] Protecting Defined Benefit Pension Schemes- White Paper (March 2018) Link

[9] Voluntary system designed to give employers comfort that TPR will not use its anti-avoidance powers

[10] Note: the impact of this civil fine is assessed in the summary bill IA.

pension benefits at the compensation level or above, the PPF, which is funded (in part) by a pension protection levy on all eligible DB pension schemes, steps in[11].

Claims on the PPF in the year to 31 March 2018 neared £1.2 billion, the highest in any year since the PPF's inception[12]. Companies become insolvent for a wide range of reasons (poor financial management, inadequate resources, competition), which may lead to an underfunded DB pension scheme entering the PPF and members of the pension scheme being entitled to reduced levels of pensions. Not all corporate transactions lead to insolvency- in the year 2017/18 TPR were notified of 1,139 notifiable events[13] and according to the PPF's annual report 46 schemes transferred to the PPF in the year 2017/18[14]. As such, we presume the proportion of corporate transactions that do lead to insolvency is very small. Some transactions will be agreed to ensure the business can continue or grow, perhaps in a different form. Intervention is not intended to stop corporate transactions; it is however intended to ensure decision makers also consider the impact of the transaction on the pension scheme. As such, it is anticipated to reduce the likelihood that a scheme will enter the PPF in the future, and to protect the pension promised to members of DB pension schemes.

The Department's White Paper stated that 'The government is clear that where sponsoring employers are able to meet their pension promises; they should and must continue to do so without undue delay or evasion'[15].

4. Impacts on affected parties (of preferred option)

As set out above, there are a number of uncertainties at this stage, as secondary legislation following consultation will provide details of the content of the policy. The discussion below provides a provisional indication of potential impacts at this stage. The EANDCB has not been quantified at this stage, further costs/benefits are to be assessed at the secondary legislation.

4.1.1 Key Assumptions/Sensitivity/Risks

The number of Notifiable Events is constant at 1,139

- There is not a set number of notifiable events and it can vary year on year- shown by table 1 below. The number directly depends on the number of Notifiable Events that both employers and schemes are involved in.
- The number of Notifiable events has increased, on average, by 17% per year over the period. There is no definite explanation as to why there has been an increase over this time period and there are a number of reasons why it could vary in the future. For example, it could be linked to the business cycle, when the economy is booming then it can be expected that businesses will be more likely to complete corporate transactions and vice a versa complete fewer in an economic downturn.
- Due to uncertainty around whether this figure may increase/decrease or remain constant in future we assume in our central scenario that this will remain constant. Sensitivity analysis around this assumption is conducted in section 8.2.1 below.

25% of all Notifiable events would have triggered a Declaration of Intent.

---

[11] White Paper: Link, page 5.

[12] The Purple Book: Link, page 55.

[13] FOI on Notifiable events Link

[14] Pension Protection Fund Annual Reports and Accounts 2017-18 Link, page 24.

[15] White Paper: Link page 10.

- The key assumption is that 25% of all notifiable events would have triggered a Declaration of Intent. We have conducted sensitivity analysis around this estimate- the upper bound of this is 35% and lower bound is 15%. This is shown in section 8.

Ongoing Cost assumptions
For indicative figures on the ongoing cost of complying with the Declaration of Intent, a number of assumption have been made:

- It will take a week of a senior corporate planners work to assess.
- It will take two days of all the trustees of the scheme's trustee board to consider.
- The hourly rate of the senior corporate planner is double the median hourly wage of a professional- £50.80[16].
- The hourly rate of a trustee is £28.50 per hour[17].

The content of the Declaration of Intent is to be set in secondary legislation, at this stage we do not know this content and as such have not been able to monetise the full impact of this measure. Further assessment of the key assumptions/sensitivities/risks will be determined at the secondary legislation stage. The Department will further assess the impact of this measure at the secondary legislation stage.

The EANDCB is not quantified at this stage, costs included here are indicative figures.

Impacts (Costs and Benefits) on Businesses

4.1.2 Costs of complying with the Declaration of Intent requirement - familiarisation and ongoing.

The costs of producing the Declaration of Intent will directly depend on: (i) the content required, and (ii) the corporate events/transactions and circumstances (e.g. triggers like a certain funding level) under which it is required. This content will be set out in secondary legislation.

Familiarisation costs.
There are 5,524 private sector DB schemes[18] sponsored by approximately 14,000 businesses, in total[19]. We expect that all sponsoring businesses will have to be (at least broadly) familiar with the new Declaration of Intent requirement. Resources invested (time etc.) in familiarisation will depend on the exact detail and on guidance made available by the TPR. However, we do not expect the definitions/parameters to be overly complex because the transactions in scope are 'usual' business' transactions like sales or borrowing. As an indication of familiarisation costs, we arbitrarily assume that it will take one professional from each of the DB sponsoring businesses spending 2 hours familiarising with the requirements. Assuming the average wage (incl. non-wage cost) of a professional of £25.40[20] per hour a

---

[16] Median hourly wages for a professional is £20.00- Taken from the annual survey of earnings and hours, 2017 revised Professional occupations Table 2.5a. link. Multiplied by two and then uprated by 27% for overheads according to the archived green book.

[17] The median hourly wage for a corporate manager or director is £22.44 in the Annual Survey of Hours and Earnings 2017 revised, Table 2.5. This is uplifted by 27% for overheads from the archived Green Book. Link

[18] The Purple Book 2018: Link, page 10.

[19] White Paper: Link page 3.

[20] Median hourly wages for a professional is £20.00- Taken from the annual survey of earnings and hours, 2017 revised Professional occupations Table 2.5a. link. Uprated by 27% for overheads according to the archived green book.

total one-off familiarisation cost would be about £0.71 million (14,000 businesses * one professional * 2 hours * £25.40 per hour).

Ongoing costs

The requirement for a Declaration of Intent will directly affect a subset of the DB sponsoring employers – those that are about to undertake one or more of the 'specific' (in the context of Declaration of Intent) corporate transactions. The existing notifiable events regime may give a very broad proxy for the potential scale of Declaration of Intent. The current Notifiable Event Framework states that if an event occurs, this must be notified in writing to TPR as soon as reasonably practicable[21]. The Notifiable Events framework is supported by a Code of Practice[22] and is a mandatory framework for schemes and their sponsoring employers. However, there are some exceptions where TPR do not need to be notified of certain events[23]. The table below shows the number of notifiable events that TPR were notified of in the past five financial years.

Table 1: Notifiable Events data between 2013 and 2018[24]

Financial Year	No. of Notifiable Events	% Change from previous year
2013-14	625	-
2014-15	720	15%
2015-16	668	-7%
2016-17	890	33%
2017-18	1,139	28%

The above table shows that the number of notifiable events is not constant over time and is also likely to vary in the future. The number of notifiable events is directly dependent on the number of events that both schemes and employers undertake. This results in the varying numbers recorded over time. Due to the uncertainty surrounding whether this number will increase/decrease/remain the same we have chosen to use the 1,139 figure from 2017-18 as our estimate for the future number of notifiable events. Sensitivity analysis around this estimate, if it were to increase year on year, is conducted below in section 8.

The Declaration of Intent will be a separate trigger based on the notifiable events framework. The notifiable events framework is quite wide and covers both scheme and employer-related events. The Declaration of Intent will focus on specific corporate transactions that have triggered employer-related events, and, as such, not all of the notifiable events will trigger a Declaration of Intent. The consultation response proposes 3 employer-related notifiable events that will trigger a Declaration of Intent [25].

There isn't information available on the full breakdown on the event type that have been notified within the notifiable events framework. As such we make the simplifying assumption that the 1,139 notifiable events are distributed evenly by the type of event-, this estimates that 25% of Notifiable Events cases will fall under the requirement of a Declaration of Intent. This is an illustrative assumption, based on the number of current notifiable events in the

[21] For more information and details on the current notifiable events framework see: link.

[22] Notifiable Events Code of Practice Link

[23] For more information and details on the current notifiable events framework see: link

[24] FOI on Notifiable events Link

[25] Consultation response document will add link when published.

framework (13[26]), the Government's proposed changes to the Notifiable Events framework which will include two additional events and one being removed[27] and that 3 events are proposed to trigger a Declaration of Intent [28]. On this basis we indicatively estimate that there will be approximately 285 cases per annum in which a Declaration of Intent will be required.

Where a need for Declaration of Intent is triggered the business is likely to incur the following costs:

- The cost of preparing the Declaration of Intent.
- The cost of assessing the effect of the transaction or event on the pension scheme;
- The cost of putting mitigations in place;
- There may be further impacts on the business if TPR deem the mitigations are not acceptable, which could result in the sponsor being invited to submit a clearance application.

The current DB Code of Practice refers to a 'working collaboratively' principle. According to TPR's research[29], 98% of sponsoring employers of DB schemes stated they engage with trustees prior to making decisions. This information was gathered from a small population of employers with DB schemes, it does not specifically relate to the requirements of the Declaration of Intent. It does however help to provide an indication that the majority of schemes/employers already consult each other prior to corporate decision making, therefore this cost is in the baseline rather than additional as a result.

Broadly speaking, there may be three types of costs associated with the three implications listed above:

1. Costs of preparing the Declaration of Intent including assessing the impacts of the corporate transaction with trustees;
2. Costs of changing the corporate transaction and
3. Costs of delaying the corporate transaction.

1. Costs of preparing the Declaration of Intent including assessing the impacts of the corporate transaction with trustees.

Secondary legislation will set out the details of requirements on

- Businesses to explain the nature of the planned transaction;
- Confirm that whoever is responsible for the planning of the corporate transaction has consulted on its terms with the trustees
- Confirm the trustees' agreement (or otherwise) to the planned transaction;
- Explain any potential detriment to the scheme (if any) and how this is to be mitigated.

This type of cost arises from the corporate planner having to assess impacts of the proposed transaction; and from having to discuss with trustees and report to the trustees and TPR. The costs are anticipated to vary by case depending on the type of transaction and other circumstances. In complex cases, the corporate planner may want to hire external

[26] List of current notifiable events in the framework- link

[27] Government's response to the Consultation on Protecting Defined Benefit Pension Schemes- A Stronger Pensions Regulator. Link, page 9

[28] = (13+2-1)/3 = 0.21 (rounded to 25% due to uncertainty).

[29] DB trust-based pension schemes research: summary report 2018 Link

consultants to assess the impact. In simple cases where it is straightforward to assess a limited amount of time spent by the corporate planner may be sufficient.

As stated previously, the content and detail of the Declaration of Intent will be set out in secondary legislation- currently there is no indication of how long this process will be for employers and trustees. At this stage, we assume for illustrative purposes that on average it may take 1 week of one senior corporate planner's work to assess, and 2 days of all trustees of the scheme's trustee board to consider. We also assume that the hourly rate of the senior corporate planner is £50.80[30] (double the average rate of a professional used above), and the average rate of a trustee is £28.50[31] per hour. There are 3.2[32] trustees per scheme on average. On this basis an illustrative annual cost estimate would be just under £1 million ((3.2 trustees * 8 hours per day * 2 days * £28.50 per hour) + (1 senior corporate planner * 8 hours per day * 5 days * £50.80pa)) * 285 cases pa.

Sensitivity analysis around this estimation has been conducted below in section 11.

2. Costs of changing the corporate transaction.

Where detrimental impacts on the scheme are identified the business may need to alter the transaction in order to mitigate the impacts. In some cases, this may potentially result in some of the business gains foregone. However, there is already a requirement (in the baseline) not to compromise the pensions scheme. The preferred option does not alter the fundamental requirements, it just alters the way implications are considered, communicated, and risks identified and mitigated. Formalising this requirement and being more prescriptive is likely to incur some additional cost to businesses. Although, quantifying this would be disproportionate as it is likely to be very case specific.

3. Costs of delaying the corporate transaction.

Where assessing whether a proposed transaction will have any detrimental impacts on the pension scheme delays the transaction but is eventually assessed to be non-detrimental, there would be a cost to the business in the form of delayed benefits from the transaction. This will be case specific and is disproportionate to quantify. However, at least in theory there may be some significant costs in some cases. In general, corporate transactions like Mergers and Acquisitions (M&As) are expected to help improving and expanding businesses, by e.g. creating economies of scale (e.g. sharing the same distribution chain or admin functions), expanding product range, acquiring and sharing know-how, etc. Willis Towers Watson (WTW) research, run in partnership with Cass Business School, found that 'acquirers continue to achieve excellent financial performance, continuing the unbroken run of fourteen consecutive quarters of outperformance, which saw deal-makers returning a market outperformance of 5.8 percentage points (pp)'[33]. However, we do not have evidence on the post-acquisition performance of UK businesses with DB schemes.

4.1.3 Benefits to Businesses

---

[30] The median hourly wage for a professional is £20.00 in the Annual Survey of Hours and Earnings 2017 revised, Table 2.5, this is uplifted by 27% for overheads from the archived Green Book. Link

[31] The median hourly wage for a corporate manager or director is £22.44 in the Annual Survey of Hours and Earnings 2017 revised, Table 2.5. This is uplifted by 27% for overheads from the archived Green Book. Link

[32] Figure 3.2.3 Number of trustees by benefit type Link

[33] Source: Link

There could be a potential indirect benefit to businesses through the PPF levy. If introducing the Declaration of Intent reduces the risk of schemes entering the PPF, the pressure on the PPF will also be reduced. In turn, this means the pressure on the PPF levy would be reduced as well. Given that the PPF levy is paid by all eligible schemes, all of them will benefit through this. However, it is important to note that this will be at least partially or fully offset by additional costs on TPR levy, as such quantifying it would be disproportionate.

Overall, we do expect this measure to have a net cost to business. However, the legislation is intended to result in benefits to scheme members as a result of businesses being required to consider the impact of corporate transactions on the scheme before completion, and hence reducing future scheme failures that would otherwise occur.

5. Costs and Benefits to Government (Including TPR and PPF)

5.1 Impacts on TPR

When the content and requirements for the Declaration of Intent are introduced, TPR will incur costs through both familiarisation and implementation which will be assessed at the secondary legislation stage.

Based on the above estimate, that there will be 285 cases per annum requiring a Declaration of Intent [34], we can expect that there will be a corresponding increase in TPR's operational costs in terms of reviewing and responding to the Declaration of Intent. On the other hand, TPR may see efficiency savings given that they will be provided with the information they need through a Declaration of Intent, this potentially may result in them being able to intervene earlier if needed and as a result provide efficiency savings.

We anticipate that there will be gross costs and gross benefits to TPR and we will aim to assess the net position at the secondary legislation stage. This may pose a potential indirect cost to business- in any case TPR is funded by the General Levy, which is excluded from EANDCB calculations.

5.2 Costs and Benefits to PPF

The costs and benefits incurred by the PPF will directly depend on: (i) the content required, and (ii) the corporate events/transactions and circumstances (e.g. triggers like a certain funding level) under which it is required. This content will be set out in secondary legislation.

It is expected that as a result of the Declaration of Intent, schemes should be at reduced risk of entering the PPF and as such, this will benefit the PPF- although quantifying this would be disproportionate.

6. Costs and Benefits to Scheme members

There will be no costs to members because:

- (i) They will not need to take any action (so no familiarisation, implementation, or other types of costs on them).
- (ii) The measure is designed to improve the security of their pensions and not compromise it, and

[34] In section 4.1.2 Ongoing costs.

(iii) In DB schemes, any additional costs incurred by sponsoring businesses cannot be passed on to their scheme members because DB is a pre-defined promise.

The measure is designed and anticipated to contribute to enhancing the security of members' pensions – in other words, improving the probability that they will have the pensions promised to them paid in full. There are about 10.4 million members[35] with an average annual pension estimated to be around £8,000[36]. It is very complex to isolate the impacts of this measure on any future changes in the member security, and so quantifying this would be disproportionate, albeit we will review this position for the secondary legislation change. Where the security is compromised, i.e. the sponsor ends up being insolvent and leaving its DB scheme underfunded, members do not lose their whole pension because a compensation is paid to them by the PPF. However, it is paid subject to the following limitation, and members get a reduced amount (compared to their 'normal' pension); the reduction varies depending on circumstances (see below):

- 100 per cent of the scheme pension is provided to scheme members that over their Normal Pension age (NPA) at the time the scheme enters assessment.
- For members below their NPA at the date of assessment, the PPF provides up to 90 per cent of scheme benefits[37].
- This compensation is subject to an overall cap, which is currently set at £39,006.18[38];
- Compensation accrued on or after 6th April 1997 is increased each year in line with Consumer Price Inflation (CPI) capped at 2.5 per cent with a floor of zero per cent[39]. Deferred compensation is re-valued over the period to NPA in line with CPI capped at 5% per annum (for compensation accrued before April 2009) and CPI capped at 2.5% per annum (for compensation accrued on or after 6th April 2009), subject to a 0% floor in both cases.

7. Wider economic and societal impacts

As set out above, this measure is designed and anticipated to contribute to improving the security of DB pensions. This improved security may have a positive spill over of improved confidence in pensions more generally, which may in turn act as an additional incentive to save. Also, where this measure contributes to protecting members from partial loss of their DB pension it may also result in associated positive externalities like reduced poverty and improved health outcomes.

8. Sensitivity analysis.

8.1 Familiarisation costs

As there is uncertainty about the exact requirements of the Declaration of Intent, we have conducted sensitivity analysis around our assumption that it will take two hours for businesses to familiarise. If employers chose to have an employee dedicate one day (8 hours) - under the above assumptions the familiarisation cost would rise from the £0.7m quoted in 6.1.1 to £2.84m[40].

8.2 Ongoing Costs

---

35 The Purple Book 2018- Link page 6.

36 Secondary Source- White Paper Link, page 43.

37 The Purple Book 2018- link page 75

38 Cap at age 65- link

39 The Purple Book 2015- link page 73

40 = 14,000*1*(25.40)*8 = 2,844,800

8.2.1 The number of notifiable events

There is sensitivity around the implicit assumption we make above that the number of notifiable events will remain stable year to year. This analysis has been conducted using the number of notifiable events in 2017-18, but as Table 1 in Section 6.1.1 shows this has varied over the past five years. Applying the same assumptions as discussed above to the lowest number of notifiable events in 2013-14 of 625 would result in a cost to business of approximately £0.545m. The costs that businesses incur will be directly proportional to the percentage of notifiable events triggering a Declaration of Intent and as such, are unlikely to be consistent year on year.

The number of notifiable events has increased from the first year reported. On average throughout the period, 2013-14 to 2017-18 the number of notifiable events has increased by 17% per annum. For the purpose of sensitivity, we have applied this to the 1,139 figure to see how the costs would alter if the number of notifiable events were to grow year on year.

Table 2: Sensitivity analysis- increased number of Notifiable events by 17% and estimated costs associated.

Year[41]	Estimated number of Notifiable Events	Estimated number of Declaration of Intents	Total Cost[42]
2020-2021	1,824	456	1,590,000
2021-2022	2,134	534	1,860,000
2022-2023	2,497	624	2,180,000
2023-2024	2,922	730	2,550,000
2024-2025	3,418	855	2,980,000
2025-2026	4,000	1000	3,490,000
2026-2027	4,679	1170	4,080,000
2027-2028	5,475	1369	4,780,000
2028-2029	6,406	1601	5,590,000
2029-2030	7,495	1874	6,540,000

The above table shows how the costs of producing a Declaration of Intent would increase if the number of notifiable events were to increase by 17% per annum. It is important to note that there is a finite number of DB employers and therefore a finite number of notifiable events that could in turn trigger a Declaration of Intent. There are 14,000 sponsoring employers, if the number of Notifiable Events were to increase by 17% per year the number of notifiable events would reach over 7,000 in the year 2029 to 2030. This is more than 50% of the sponsoring employers notifying TPR of one of their events. This is unlikely to increase at this rate continuously over time.

8.2.2 The proportion of notifiable events that would trigger a Declaration of Intent

We made the assumption above that 25% of notifiable events cases would have triggered a Declaration of Intent, incurring costs to business of just under £1m. As this is an arbitrary assumption, we have conducted some sensitivity analysis around the estimate. Our worst-case scenario would be that 35% of notifiable events cases would have triggered a Declaration of Intent. In this worst-case scenario, the costs incurred to businesses would be approximately £1.4m. Our lower estimate would be that 15% of Notifiable Events cases

[41] The year 2020-2021 has been selected as start year as an assumption- it is not yet known when these regulations will come into force.
[42] Rounded to the nearest 10,000.

would have triggered a Declaration of Intent; in this case, the costs incurred to businesses would be approximately £0.6m.

8.2.3 Non-quantified costs

At this stage it is considered disproportionate to quantify any ‘delayed transaction’ cost incurred by businesses because of these changes, and therefore it is possible that EANDCB after secondary legislation is introduced could exceed £5m. As stated previously, a full impact assessment and EANDCB will be conducted at the secondary legislation stage considering these costs.

9. Small and Micro Business Assessment

There is information in the Annual Survey of Hours and Earnings (ASHE) data set on the size of DB sponsoring employers with active members. This will only include those who are contributing to a DB pension so will exclude members who are in schemes closed for future accrual but it helps to provide an indication of the size of DB sponsoring employers. The table below shows the proportion of private sector and not for profit active DB members by employer size.

Table 2: Proportion of active DB members, by employer size[43]

Size of Employers	Proportion of DB members
1-9	2%
10-49	10%
50-99	4%
100-499	14%
500-999	9%
1000+	61%
All sizes	**100%**

The above evidence shows that the majority of active DB members work in businesses with more than 50 employees. The introduction of the Declaration of Intent will impact all businesses who choose to undertake the stated corporate transactions- as such there will not be a disproportionate impact on small and micro employers.

It is possible that smaller start-up businesses would be more likely to take more risks than larger employers would. However, the proposed events that will trigger a Declaration of Intent are below:

a) Sale of controlling interest in a scheme employer (an existing notifiable event set out in regulation 2(2)(f) of The Pensions Regulator (Notifiable Events) Regulations 2005);

b) Sale of the business or assets of a sponsoring employer (new notifiable event to be introduced in secondary legislation); and

c) Granting of security in priority to the scheme on a debt to give it priority over debt to the scheme (new notifiable event to be introduced in secondary legislation).

[43] Source: DWP estimates derived from ONS Annual Survey of Hours and Earnings (GB)

It is reasonable to assume that the businesses that will engage in these kind of transactions are more likely to be larger employers, rather than small start-ups. Furthermore, we generally would not expect any new start-ups to establish a DB scheme.

10. Monitoring / post implementation review.

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

Table 3: Estimated Direct costs to business.

	Volumes	Cost[44]	How often?	Assumptions	Rationale
Familiarisation Cost	14,000 DB sponsoring employers	£710,000	One-off	One professional will familiarise for 2 hours. Hourly wage of a professional is £25.40[45].	This is changes to the primary legislation- more detail will come when secondary legislation is introduced. At this time, think that it will be reasonably straightforward.
Ongoing Costs (Central Scenario)	285 Declarations of Intent per annum	£990,000	Per annum.	3.2 Trustees, spend 2 days (8 hours each day). Hourly wage of a trustee is £28.50. One corporate planner, spends a whole week (40 hours). Hourly wage of corporate planner is £50.80. 25% of Notifiable Events are those that would trigger a Declaration of Intent.	All trustees would be involved. Hourly wage of a corporate planner is expected to be higher than average wage of a professional.

[44] Rounded to the nearest 10,000.

[45] The median hourly wage of a professional is £20.00 in the Annual Survey of Hours and Earnings 2017 revised- Table 2.5. This has been uprated by 27% for overheads in line with the previous green book- no updated figure was available.

Ongoing costs (low scenario)	171 Declarations of Intent per-annum.	£600,000	Per annum.	3.2 Trustees, spend 2 days (8 hours each day). Hourly wage of a trustee is £28.50. One corporate planner, spends a whole week (40 hours). Hourly wage of corporate planner is £50.80. 15% of Notifiable Events are those that would trigger a Declaration of Intent.	All trustees would be involved. Hourly wage of a corporate planner is expected to be higher than average wage of a professional.
Ongoing costs (high scenario)	399 Declarations of Intent per annum.	£1,390,000	Per annum.	3.2 Trustees, spend 2 days (8 hours each day). Hourly wage of a trustee is £28.50. One corporate planner, spends a whole week (40 hours). Hourly wage of corporate planner is £50.80. 35% of Notifiable Events are those that would trigger a Declaration of Intent.	All trustees would be involved. Hourly wage of a corporate planner is expected to be higher than average wage of a professional.