Title: Master Trust Authorisation **IA No:** **RPC Reference No:** **Lead department or agency:** Department for Work and Pensions **Other departments or agencies:**	**Impact Assessment (IA)** **Date: September 2016** **Stage:** Bill **Source of intervention: Domestic** **Type of measure:** Primary legislation **Contact for enquiries:** ELEANOR.PIERCE@DWP.GSI.GOV.UK 0207 245 3777
Summary: Intervention and Options	**RPC:** Fit for Purpose (Green)

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2014 prices)	**One-In, Three-Out?**	**Business Impact Target Status**
N/A	N/A	N/A	N/A	Qualifying regulatory provision

What is the problem under consideration? Why is government intervention necessary?

Master Trusts are a form of multi-employer pension scheme that operate on a Trust basis. They are established by a founder who sets the trust deed, rules and appoints a board of trustees. Employers are then able to select the master trust for their workers rather than needing to set up their own pension scheme or choosing other arrangements such as a Group Personal Pension (GPP) which is a form of contract-based pension scheme.

In recent years there has been significant growth in development and use of Master Trust structures as a vehicle to provide occupational pension schemes. There are over 4m members and £8.1bn assets in 84 Master Trusts in the UK in January 2016. We expect the number of members in Master Trusts to continue to increase significantly as a result of Automatic Enrolment, and for new Master Trust schemes to emerge in response to Automatic Enrolment and new pensions flexibilities. Master Trust schemes are important for the success of these pension reforms - they can offer good value for members due to scale, and the benefit of the fiduciary trustee oversight.

However, there is a need for government intervention now to address gaps and weaknesses in the current regulatory environment for Master Trusts that may otherwise result in scheme members' benefits having a lower level or missing elements of protection compared to other types of pension scheme arrangement. It is essential to protect members benefits (savings) if confidence in pension saving is to be maintained and to achieve the aim of the Automatic Enrolment programme to increase security in later life by getting millions of individuals saving more for retirement.

What are the policy objectives and the intended effects?

1) to protect Master Trust members' pension savings (and confidence in savings), in particular addressing gaps in the regulatory regimes which have arisen because of the way in which Master Trusts have evolved.
2) to ensure the Pensions Regulator (TPR) has the necessary powers to regulate and enforce new quality standards.

What policy options have been considered, including any alternatives to regulation?

1. Do Nothing: Retain the existing voluntary process for accreditation by independent audit (Master Trust Assurance Framework (MTAF)).

This option will not meet the concerns above because under the current voluntary accreditation arrangement there are a large number of Master Trusts (74 out of 84) that are not currently accredited or seeking accreditation. In addition, this option does not address the problem identified that there are currently low barriers to entry to establishing a Master Trust and taking on new members, nor address key gaps in the regulatory regime including protection for members in the event of scheme failure.

2. Master Trust Assurance Framework: Make the existing process for MTAF accreditation compulsory.

This option would help to level the requirements within the Master Trust market, with an assumed increase in scheme quality for the majority of schemes not already accredited, but it would not address the key gaps in the regulatory regime because Master Trust schemes would continue to present significant risks to member benefits compared to other DC pension schemes. This is because the MTAF does not cover risks or requirements around, for example, financial stability of the provider, in terms of the capital it must hold in reserve against certain risks, and is not forward looking.

3. Master Trust Authorisation Process: Introduce a new compulsory authorisation process with additional requirements compared to the MTAF.

This would enable us to introduce a comprehensive authorisation process that protects members and strikes an appropriate balance on all of the key risks.

The Department discussed options with key stakeholders in a series of Ministerial Roundtables in May 2016, and further stakeholder events in July 2016, and concluded that options 1 or 2 would not meet the policy objectives outlined above. The preferred option is therefore Option 3. This Bill makes provision for Option 3 through introducing the requirement for Master Trusts to be authorised prior to taking on new members and contributions. It outlines the broad framework for the authorisation criteria and it provides for TPR to have enhanced powers and responsibility in performing its regulatory functions. The Bill also includes a prohibition on trustees of Master Trusts from increasing charge levels, imposing new charges or charging members for leaving the scheme once certain events have happened (which indicate the Master Trust is at risk). There is a corresponding prohibition on a Master Trust which receives members from a failing Master Trust from passing on costs to its own members from that failing Master Trust.

At this stage there is significant uncertainty over the full impacts of the proposal, as costs will be determined by the details to be set out in subsequent secondary legislation. This impact assessment provides an indication of the possible scale of impacts. The Department will submit a full assessment of the EANDCB in an updated impact assessment at the secondary legislation stage, following further consultation with industry on how the framework is to be designed and implemented.

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Richard Harrington Date: 11/10/16

Will the policy be reviewed? No	**If applicable, set review date:** N/A					
Does implementation go beyond minimum EU requirements?			N/A			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** YES	**< 20** YES	**Small** YES		**Medium** YES	**Large** YES
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			**Traded:** N/A		**Non-traded:** N/A	

Summary: Analysis & Evidence

Policy Option 1

Description: Do nothing (retain existing voluntary accreditation process)

FULL ECONOMIC ASSESSMENT

Price Base Year 2016	PV Base Year 2018	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low		1		
High				
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised costs by 'main affected groups'

There would be zero additional regulatory costs for pension providers, schemes, or employers sponsoring DC occupational pension schemes under this option. As is currently the case, the voluntary accreditation process will have costs for those that choose to take part in it, but no scheme is forced to incur costs by this policy option.

Other key non-monetised costs by 'main affected groups'

N/A

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low				
High				
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised benefits by 'main affected groups'

N/A

Other key non-monetised benefits by 'main affected groups'

N/A

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5

Though there have been cases where Master Trusts have failed, we do not have any robust information about the likelihood of a Master Trust failure, the extent to which member benefits would be at risk in the event of failure, or about the scale of the impact that any failure would have on confidence in the sector.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: N/A	Benefits: N/A	Net: N/A	N/A

Summary: Analysis & Evidence

Policy Option 2

Description: Existing TPR Master Trust Assurance Framework is made compulsory

FULL ECONOMIC ASSESSMENT

Price Base Year 2016	PV Base Year 2018	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low		1		
High				
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised costs by 'main affected groups'

The key costs under this option are for existing Master Trusts plus any new entrants that will need to undergo accreditation through the existing Master Trust Assurance Framework, plus familiarisation costs.

- We estimate that 57 Master Trusts will incur one-off accreditation costs (estimated to be £62,500 per scheme), at a total cost of **£3.5m**. There may be some additional on-going costs once a scheme has been successfully accredited to demonstrate their compliance at a subsequent stage. These have not been monetised at this stage.
- There may be some costs associated with familiarisation, although these are not anticipated to be significant as it is assumed awareness of the MTAF within the industry is already high. These costs are estimated at around **£5,000**.

Other key non-monetised costs by 'main affected groups'

There may be additional costs for existing (74) and future Master Trusts not accredited in the baseline associated with achieving the standards necessary before passing the assurance framework. These costs have not been quantified because of a lack of evidence about the cost of meeting required standards or any assessment of standards in those schemes currently unaccredited.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low				
High				
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised benefits by 'main affected groups'

We have not monetised the benefits as we do not have a baseline projection of how many schemes would have failed, or the cost to members of scheme failure under the 'Do Nothing' approach from which to estimate any benefits to members that result from reduced risk of failure.

Other key non-monetised benefits by 'main affected groups'

The key benefit of this option is for existing and future members of Master Trust schemes who will have greater assurances about how the scheme is run, (though compulsory accreditation does not mitigate all of the key risks identified). There are currently 4.3m members, with assets of nearly £8.1bn managed by 84 Master Trust schemes. The scale of this market is expected to grow significantly, with 6.6m members forecast by 2030. The benefit to members is not monetised because it is not possible to distinguish which members or the value of assets that are managed in Master Trusts that are not currently 'accredited' (whose members are expected to benefit), so the exact number of members or scale of benefits at risk are not quantifiable, and we do not know the risk of scheme failure.

We have not monetised any wider benefits associated with greater confidence in the sector as a result of compulsory accreditation.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5

A key assumption is the estimated cost of undergoing accreditation, which is based on average costs reported to DWP by Master Trusts that have already gone through the existing MTAF process: these range from £25k-£100k and we have used the midpoint as a best estimate. There is a risk that this cost is not representative of the cost for those schemes that have not gone through the process, though TPR estimate that the cost of accreditation could be lower, at £30k.

The estimated costs of accreditation do not include potential costs for new market entrants who would not have been expected to go through the voluntary accreditation process in the baseline, and therefore may understate total costs.

The benefits to members will depend on the likelihood of Master Trust failure and the scale of member benefits at risk with and without compulsory accreditation, which is unknown.

It has not been possible to include any costs to Master Trusts associated with having to raise standards in order to become accredited, though these could be material.

We assume that there are no additional costs for Master Trusts that have already passed or are undergoing accreditation.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target** (qualifying provisions only) **£m:**
Costs: N/A	**Benefits:** N/A	**Net:** N/A	N/A

Summary: Analysis & Evidence

Policy Option 3

Description: Introduce a new compulsory Master Trust Authorisation Process

FULL ECONOMIC ASSESSMENT

Price Base Year 2016	PV Base Year 2018	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low		1		
High				
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised costs by 'main affected groups'

It is not possible to monetise costs at this stage because costs will be determined by the details to be set out in subsequent secondary legislation. Whilst the framework for the authorisation process is set out in the Bill, standards schemes will be required to meet (and how they are met) will be subject to consultation with the industry. Therefore, costs cannot yet be assessed. The level of uncertainty is too great to provide meaningful monetised costs or EANDCB.

Other key non-monetised costs by 'main affected groups'

The key cost will be for all existing and future Master Trust schemes that will be required to be authorised under a new process. These costs will include costs associated with meeting scheme requirements, the costs of going through the new authorisation process, on-going costs of compliance, and familiarisation costs.

It is not possible to fully monetise costs at this stage as they are dependent on the specific standards that will be set out in more detail in subsequent secondary legislation. However, we would expect these costs to be higher than those associated with a compulsory accreditation framework (Option 2), because they will be broader in scope (covering all the key risks), and in scale (to provide greater risk mitigation) and will involve a regulatory and enforcement aspect.

There is an additional cost to business to fund TPR to conduct the new authorisation and supervision processes. The specific charging approach is yet to be finalised, but we anticipate the structure will likely include an authorisation fee charged to those applying for authorisation and on-going levy charges for supervision made on all Master Trusts.

There may also be a cost to the ICAEW which currently administers the MTAF accreditation and charges a fee to schemes for this. The nature of any role the ICAEW may have under the proposed Authorisation regime has not yet been decided.

The Bill also introduces a prohibition to protect members from increased costs as a result of a failure of a Master Trust. The prohibition is on increasing charges, introducing new charges, or charging a member for transfer during a specific period where the scheme is at risk. The authorisation regime may lead to some MTs to pre-emptively leave/exit the market, and in these cases we assume they would only choose to wind up where the benefits of doing so outweighed the costs. In these cases, we assume zero cost. In other cases , as the cost of wind up would vary across MTs due to a range of factors including: the number of members in the scheme, the assets under management and any existing funding strategies, it would be difficult to make robust assumptions about the impact of this measure.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low				
High				

Best Estimate	N/A		N/A	N/A

Description and scale of key monetised benefits by 'main affected groups'

We have not monetised the benefits as we do not have a baseline projection of how many schemes would have failed, or the cost to members of scheme failure under the 'Do Nothing' approach from which to estimate any benefits to members.

Other key non-monetised benefits by 'main affected groups'

All members in Master Trusts will benefit from improved protection, reduced likelihood of Master Trust failure and associated potential loss of savings (and consequently future retirement income), and protection from costs incurred in closing down the scheme. There are currently 4.3m members in these schemes, forecast to reach 6.6m by 2030. We have not monetised these benefits as we do not have a baseline projection of how many schemes would have failed with and without a compulsory authorisation process.

We have not monetised any wider benefits associated with greater confidence in the sector as a result of compulsory authorisation and reduced likelihood of Master Trust failure.

There may be savings for the Regulator in future years by avoiding problems arising and safeguarding member benefits.

Master Trusts were managing assets to the value of £8.1 billion, and these are forecast to grow as Auto Enrolment roll-out continues. All of these assets will benefit from the protections introduced under this measure, although it is not possible to quantify the value of the assets that were specifically 'at risk' in the baseline scenario.

Some of these benefits only arise after the secondary legislation has been developed and the entire regime commenced. The protection in relation to costs to the member if the scheme fails will occur immediately, as we intend to apply this measure retrospectively (to apply from the date of introduction).

Key assumptions/sensitivities/risks	Discount rate (%)	3.5

Without further details of the authorisation framework and supervision regime it is not possible to reliably estimate the cost of undergoing the authorisation process and compliance. Given the scope of authorisation is intended to go wider than accreditation (Option 2), it is reasonable to assume that the associated costs (and member benefits) will be higher. This uncertainty will be addressed through the detailed requirements under of the authorisation criteria and the standards they prescribe, which will be outlined in secondary legislation and the EANDCB calculated in an accompanying Impact Assessment at that stage. However, it is expected that any authorisation process will incur costs for each Master Trust scheme.

There is considerable uncertainty in the likelihood of Master Trust failure (and the level of member benefits at risk) in the baseline and under this option, so it is not possible to reliably estimate the benefits to members associated with reduced risk of failure.

The costs to business will depend on the number of Master Trusts that choose to remain in or enter the market. Across the 84 Master Trusts known to TPR in 2016, TPR assume that there will be some consolidation in the baseline scenario and this may reduce the number of Master Trusts to around 67. The impact of authorisation on the number of Master Trusts is not known, it is anticipated that some schemes will not seek authorisation and some will fail to meet the standards and exit the market. This could reduce the number of Master Trusts further to around 54 although this will be heavily dependent on individual schemes reaction to the authorisation regime.

The impact of the intended prohibition is also at present uncertain. There is no reliable data on the schemes expected to exit the market following the introduction of the Bill, the level of member benefits managed by those schemes who wind up, or the extent to which schemes winding up would have used member benefits to pay for the costs of winding up.

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual)			Score for Business Impact Target (qualifying provisions only) £m:
Costs: N/A	Benefits: N/A	Net: N/A	N/A

Evidence Base (for summary sheets)

Background

What is a Master Trust?

1. Master Trusts are a form of multi-employer defined contribution pension scheme that operate on a Trust basis. A master trust is established by a founder who sets the trust deed, rules and appoints a board of trustees. Employers are then able to select the Master Trust for their workers rather than needing to set up their own pension scheme.

Defined contribution:

2. In a defined contribution pension, the member builds up a pension pot, based on how much the member pays in in contributions, employer contributions (if applicable) plus investment returns and tax relief, less any charges.

Trust based:

3. Private pensions can be either occupational (usually trust based) or personal pensions, including group person work place pensions (which are usually contract-based). The category into which they fall affects which regulations they must comply with and which body is responsible for regulating them. Master Trusts are occupational trust-based schemes, regulated by the Pensions Regulator (TPR).

Multi-employer:

4. Traditionally, the majority of trust-based occupational pension schemes have been developed for a single employer. However, Master Trusts are multi-employer occupational schemes for un-connected employers where instead of the employer setting up their own pension scheme, the scheme will be provided by an external organisation which runs a pension scheme for numerous employers. A Master Trust will generally have one board of trustees who are responsible for the interests of all members across all employers.

Characteristics of Master Trusts

5. As a trust-based pension scheme, Master Trusts are subject to laws that have traditionally been designed for and applied to the single-employer model (as this is how trust-based schemes have tended to be set up), and they are regulated by TPR. However, as multi-employer schemes for unconnected employers there are many ways in which Master Trusts share more in common with group personal pension schemes (a type of contract-based scheme which is regulated by the FCA).

6. Contract law works in a different way to trust law and occupational pension law. The FCA regulate firms that offer personal pensions, including fit and proper person tests for key individuals delivering regulated activities. Also, the solvency risk of insurance providers of personal pension schemes is regulated by the Prudential Regulator Authority (PRA). Personal Pensions, along with other financial products and services, are covered by the Financial Service Compensation Scheme.

7. Some of the fundamental dynamics and influences that are assumed to be in place in occupational pensions – such as an employer having an on-going interest in the running of the scheme, and of the future of the scheme being aligned to the future of the employer – do not apply to Master Trusts. Also, many Master Trusts, unlike other occupational pension schemes

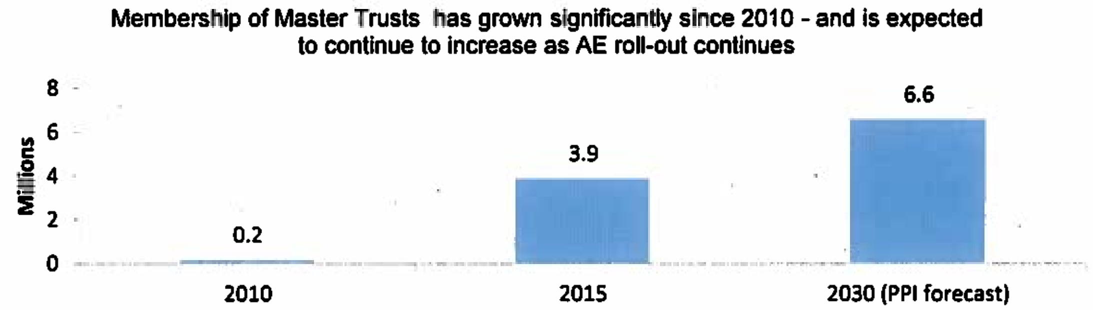
are set up to create profit or to be self-sustaining. Alongside the transactional relationship with the employer, this gives rise to new risks which in turn gives rise to a need for a different type of regulation to ensure member benefits are protected.

Master Trusts and Automatic Enrolment

8. Automatic enrolment (AE) was introduced in 2012 to reverse the long-term decline in the number of people saving into workplace pensions. As automatic enrolment rolls out between 2012 and 2018, all UK employers will have to enrol workers into a qualifying workplace pension scheme if they are working in the UK, earn more than £10,000 per year, are over 22 years old and are under state pension age. Employers will have to pay minimum contributions to workplace pensions, currently set at 1% of a band of qualifying earnings, due to rise to 3% by April 2019. By the end of July 2016, over 200,000 employers had automatically enrolled more than 6.5m eligible workers.[1] Once fully implemented, automatic enrolment is expected to increase the number of individuals newly saving or saving more in a workplace pension by around 9 million, and increase the amount that is being saved in workplace pensions by around £15bn a year.[2]

9. Where employers do not have existing qualifying workplace provision they will be required to choose a scheme in which to automatically enrol eligible workers. To support the aims of AE, the government created the National Employment Savings Trust (NEST), a government-backed Master Trust, to ensure that all employers had the option of joining a trust-based scheme without having to set one up themselves (likely to be a large burden, especially for small and medium employers).

10. Since the roll-out of automatic enrolment began in 2012, there has been a large growth of Master Trust schemes in the DC marketplace.



11. In 2010 there were around 0.2 million members in Master Trust schemes. By 2015, this had increased to around 4 million. Master Trusts now make up around 7 in 10 memberships of DC trust-based schemes and in 2016 Master Trusts being used for Automatic Enrolment were reported to be managing assets to the value of around £7.6 billion.[3] The latest (unpublished)

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[1] http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf

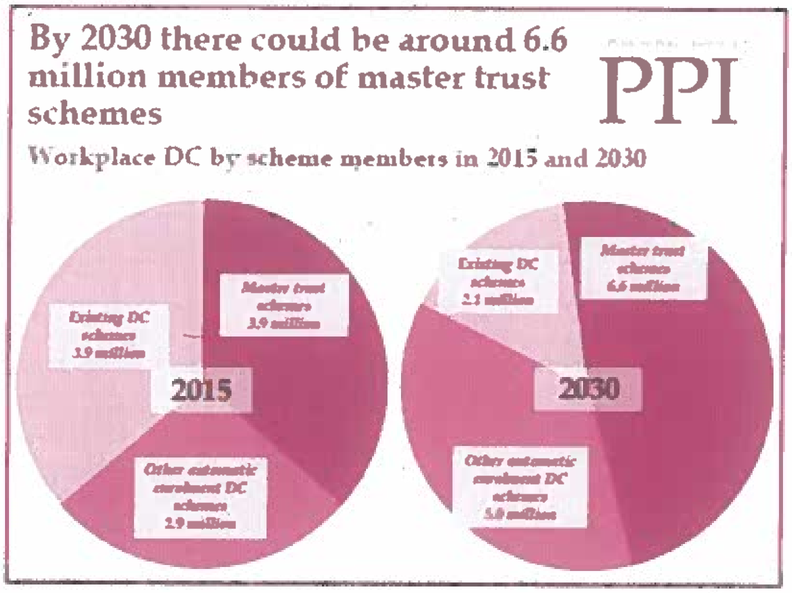
[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/460867/workplace-pensions-update-analysis-auto-enrolment.pdf

[3] TPR, DC Schemes Research 2016 – Summary report, Table 1.1.1

estimate from TPR suggests there are now 4.3m members and around £8.1bn in total assets managed by 84 Master Trusts.

12. The 2015 Employer Pension Provision Survey found that 5% of all UK employers offered access to a Master Trust scheme (3% using NEST, 2% with a Master Trust other than NEST), and the majority of these employers were using Master Trusts for automatic enrolment duties.[4] Of those employers that had already implemented automatic enrolment, 37% were using Master Trust schemes (23% NEST; 14% other Master Trusts). Of those employers who were yet to 'stage' (implement automatic enrolment), although the majority (60 per cent) either already offered pension provision or had not yet decided which type of scheme to use, 21 per cent planned to use a Master Trust (including NEST).

13. Analysis by the Pensions Policy Institute shows that by 2030, if current trends in scheme allocation continue, there could be 6.6 million people saving in master trust schemes (compared to around 2.1 million in DC schemes which existed prior to automatic enrolment, and around 5 million people in other automatic enrolment DC schemes).[5]



Existing regulation of Master Trusts

14. The sharp increase and expected continued growth in membership of Master Trusts means it is increasingly important that they are adequately regulated to ensure millions of members' savings are protected.

15. As Master Trust schemes are occupational schemes, they are subject to a different type of regulation than personal pension schemes, such as Group Personal Pension schemes (also commonly used for automatic enrolment). However, in many ways Master Trusts share more in common with group personal pension schemes. Some of the fundamental dynamics and influences that are assumed to be in place in occupational pensions – such as an employer

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[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504346/rr919-employers-pension-provision-2015.pdf

[5] PPI Future Book, 2015

having an on-going interest in the running of the scheme, and of the future of the scheme being aligned to the future of the employer fall away. Also, many Master Trusts, unlike other occupational pension schemes are set up to create profit or to be self sustaining, and this, along with the transactional relationship with the employer, gives rise to different risks which in turn gives rise to a need for a different type of regulation to protect member benefits.

16. For example, the solvency risk of the provider of the scheme is regulated in respect of group personal pension schemes by PRA and FCA – but this does not apply to Master Trusts, as occupational pension law has generally evolved with the single employer pension scheme model in mind as this is traditionally how schemes have been set up in the past – where there is no separate commercial entity running the scheme for profit or to be self sustaining.

17. In 2014 the Institute of Chartered Accountants in England and Wales (ICAEW), in partnership with TPR, developed the Master Trust Assurance Framework (MTAF) as a way of helping Master Trusts demonstrate that they have standards of governance and administration that meet TPR's DC code and DC regulatory guidance. The framework provides an independent review against a defined set of governance objectives agreed by TPR and is generally seen as an indicator of a well-run scheme. Successful Master Trusts receive a report confirming they have been independently assessed as meeting the MTAF standards and are included on the list of schemes on TPR's website[6]. This voluntary process assesses whether a scheme can be considered well-run, but it does not seek to address gaps in the regulatory framework.

18. There are currently 11 Master Trusts that have gone through the MTAF process and are on the TPR list, out of a total of 84 schemes. This means that the vast majority of Master Trusts have not signed up to this voluntary Framework.

Problem under consideration

19. There are several specific areas of risk arising in relation to Master Trusts compared to other types of occupational pensions and also compared to group personal pension schemes:

- Master Trusts have developed new types of business structures which create a **significant alteration of the relationships** (and behavioural incentives) between key players (member, employers, trustees, provider) which are integral to the current basis for existing law and regulation;

- Many Master Trusts are run on a profit basis. **Introducing the profit motive**[7] into the realm of occupational pensions introduces a significant new dynamic (and changes incentive structures) which existing occupational pension regulation does not take into consideration – to date this has been the domain of the FCA and regulation of group personal pensions and other financial products.

- Master Trusts operate at a scale which is unprecedented in occupational pensions. The collapse of a large scheme would create a greater shock to the confidence of savers generally than that of a single employer DC pension. The number of members and size of assets are heavily concentrated in a relatively small number of very large Master Trusts.

[6] http://www.thepensionsregulator.gov.uk/trustees/master-trust-assurance.aspx

[7] Although the board of trustees need to have regard to their fiduciary duties; the corporate entity that sets the trust deed and rules is not covered by this requirement.

- Master Trusts have multiple employers to serve – the **complexity** involved in serving the customer base and the distance of removal from the end user poses a challenge to costs, exacerbates the principal-agent problem, and complicates the existing system of educating and enabling trustees to carry out their functions in a competent manner.

- Master Trusts are **not subject to the regulation that applies to other financial products**, such as contract based workplace pensions. This makes the scheme cheaper to set up and deliver for the provider; savings which could be passed onto members. But in taking this route, Master Trusts avoid key requirements that exist within the FCA regulatory remit, such as tests for financial stability and key personnel competence, yet the essential nature and relationships within a Master Trust appear to be more like a financial product such as a group personal pension.

20. A recent Work and Pensions Select Committee report[8] into automatic enrolment concluded that:

> *"Gaps in pension law and regulation have allowed potentially unstable master trusts onto the market. Should one of these trusts collapse, there is a very real danger that ordinary scheme members could lose retirement savings. There is also a risk that faith in auto-enrolment as a whole will be undermined. We support the Minister's call for a Pensions Bill to introduce stronger regulation of master trusts."*

Rationale for intervention

21. The rationale for government intervention is:

- To **protect members** from suffering financial detriment as a result of new and increased risks presented by Master Trusts which are not adequately covered by the existing regulatory framework, and to level the playing-field in what types of risk members are protected from both within the Master Trust market and between types of DC scheme.

- To **promote quality** based on a level playing-field in the Master Trust sector by ensuring that reputable Master Trust arrangements are not undercut by less reputable arrangements seeking to gain a competitive advantage by weakening member protections or by exploiting loop-holes.

- To **protect confidence in** pension saving in the UK by reducing the risk of high profile failure or fraud in the Master Trust sector. Given the growing prevalence of Master Trusts in providing benefits it will also help protect the good reputation of the Automatic Enrolment programme, which is a key pillar of the government's approach to ensuring people make adequate provision for their financial needs in later life.

- The Office of Fair Trading 2013 market study identified that the DC market had a **very weak demand-side** and that competition alone could not be relied upon to drive good outcomes for consumers.[9] This is primarily the result of a **principal-agent problem** – the employer chooses a workplace scheme for their workers but has different incentives to the scheme

[8] http://www.publications.parliament.uk/pa/cm201516/cmselect/cmworpen/579/57906.htm#_idTextAnchor010

[9] http://webarchive.nationalarchives.gov.uk/20131101164215/http:/www.oft.gov.uk/shared_oft/market-studies/oft1505

members (workers). The **complexity of the market and products** further complicates the ability of employers to make decisions in the best interest of workers. The OFT made recommendations for actions for different parties to take in response to its findings. One of the recommendations was for Government and regulators to ensure an equivalent level of protection between Master Trust and contract-based, off the shelf products.

- It is incumbent on Government to ensure that regulation is adequate in Master Trusts, as a large proportion of members have been automatically enrolled rather than actively choosing to participate in workplace pension saving. Latest estimates suggest that an additional 9 million individuals will be newly saving or saving more as a result of automatic enrolment.

Policy objectives

22. The key policy objectives are:

- To close a key loop hole in the regulatory remits in order to achieve **equivalent protection** across the DC landscape for members of Master Trusts in so far as providing protection from similar types of risk, and protection from new risks arising in Master Trusts.

- To ensure the **market evolves in a balanced way** – the objective is to achieve an appropriate balance between member protection and the cost of regulation across the industry. Master Trusts can offer good deals to members due to efficiencies of scale, and can offer a good route for employers who do not want to set up an individual scheme just to meet their automatic enrolment duties. However, this must not be at the cost of protecting the member against key risks which Government has sought to protect them from under existing regulation.

- To put the Pensions Regulator into a position where it can proactively ensure **schemes are assessed before members join** and also provide an on-going supervisory role to prevent costly adjustments later down the line which may impact the Master Trust founder's business plans, and also to reduce the likelihood of things going wrong later.

- To **reduce** the likelihood of a Master Trust being set up for **fraudulent purposes**.

Description of options considered

<u>Option 1: Do Nothing</u>

23. This option will retain the existing voluntary process for MTAF accreditation. To date, ten Master Trusts have successfully completed this process and are on TPR's published list[10], typically those with large numbers of members so that in total over 90% of the total membership of Master Trust schemes are in Master Trusts that are signed up to the MTAF[11]. However, the current framework is voluntary and the vast majority of schemes have not signed up, leaving an estimated 430,000 members in schemes that have not signed up. Therefore, this option does not address the key risks identified, or meet the policy objectives.

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[10] http://www.thepensionsregulator.gov.uk/trustees/master-trust-assurance.aspx#s19297

[11] TPR PQ 34203

Option 2: Existing MTAF made compulsory

24. This option will mean that all Master Trusts will have to successfully complete the MTAF process, other than those that have already done so. TPR's website sets out the process for achieving Master Trust Assurance. This involves commissioning an independent accountant to assess the design and operating effectiveness of control procedures that have been put into place, and to produce a report confirming that Master Trust Assurance has been achieved.

25. The current MTAF is written in a way that is about making sure the scheme has good governance in place and the key quality features as outlined in TPRs DC Code. It is a good indicator of a well-run Master Trust. However, there is no requirement that the scheme has to have these features before it starts taking in any money from members, or before employers have used it to meet their Automatic Enrolment requirements.

26. Although lots of employers have so far used schemes with the MTAF, we want to make sure that there is greater safety for employers and members in the future about the sustainability and security of the schemes they are using for AE than the MTAF provides for.

27. Having to achieve the independent assessment against the MTAF does not necessarily make individual indicators a statutory requirement, and so TPR would not be able to enforce compliance with key indicators if the new approach simply required schemes to achieve the report.

28. The Framework itself does not seek to address key risks such as solvency of the sponsoring entity or founder or make requirements about capital.

29. It is also backward looking – it is an assessment that processes are in place, for a previous period, and does not scrutinise the quality of those arrangements or cater for forward looking business planning. As it is independently assessed TPR have no access to scrutinise the underlying materials or arrangements that are signed off. The way in which the specific measures are currently configured would mean that they could not be legally enforceable.

Option 3: Authorisation

30. This approach would be an evolution of the current MTAF in so far as it would require schemes to have certain things in place, including some of the areas in the current MTAF. Some of the key differences include:

   a. A requirement on Master Trust schemes to be authorised in order to operate – i.e. to take on members.
   b. Requirements on schemes in terms of options open to them when the founder wishes to exit or becomes insolvent, and protections for members.
   c. Powers for TPR to:
      i. authorise or refuse to authorise a Master Trust.

      ii. operate an on-going approach to regulation through the life of the scheme which would include the requirement for scheme to report certain changes or developments. This will ensure that TPR can check that schemes continue to meet the criteria;

iii. require key information and engagement from the scheme and connected parties that is relevant to the regulation of the scheme and protection of members benefits; and

iv. exchange key information with other relevant bodies.

31. The authorisation criteria will be set out in primary legislation and regulations will include specific requirements or standards that Master Trusts will need to meet. The primary legislation does not spell out exactly what tests should be applied in each area and how these would be applied. Including further details in secondary legislation is more appropriate for those detailed and technical issues, and enables greater flexibility and the ability to respond to a changing market.

32. This would mean that legislation can provide for the flexibility needed and proportionate regime. For example, enabling the criteria to be met through a variety of ways rather than a simple prescription or one size fits all, and using proxies or equivalents – such as FCA fit and proper person test, or having a sponsor covenant or insurance to support or fulfil a quasi-capital adequacy test, or having an independent audit attest to quality of governance features.

33. The criteria have been created in response to specific key risks identified in Master Trusts, and where parallels with FCA type requirements would be appropriate. These risks were identified and tested with stakeholders at the roundtable events, and via officials' engagement with stakeholders. Those events demonstrated that although there is a range of views on 'how' to measure adequate mitigation against those risks, there is broad agreement that regulation of minimum standards in relation to these risks is appropriate.

34. Under the preferred option (Option 3), the primary legislation will introduce a new compulsory authorisation framework, enhanced powers for TPR to regulate and enforce a set of authorisation criteria, and a specific prohibition on trustees from increasing charges, imposing new charges or charging members for leaving when a Master Trust intends to exit the market. It is also intended there is a corresponding prohibition on Master Trusts which receive bulk transfers of members from failing Master Trusts from passing on costs to their own members from the failing Master Trust.

Authorisation Criteria

35. Under the preferred option (Option 3), the primary legislation will not specify the detailed standards that will apply to each criterion. Setting out the details in secondary legislation is more appropriate and enables greater flexibility to respond to a changing market and undertake more detailed consultation with the industry. The primary legislation will set out the framework for the authorisation process based on the following criteria:

- **Competence and integrity** - of the founders, trustees and those influencing the scheme;
- **Systems and processes** - for key administrative and governance risk areas such as security, IT, data protection – and which are appropriate to the scale the scheme aims to achieve.
- **Financial stability of the arrangement** – for example, requiring a certain amount of capital or for the scheme to have access to resources at all times, which would be sufficient to run

on the scheme to a point of self sufficiency, to run the scheme on for a period of time if a failure event occurred or if a founder left or became insolvent, and to pay for costs of winding up; to require a the company sponsoring the scheme to prove its financial stability.

- **Continuity of savings** – schemes will be required to transfer members out of the scheme before the start of the formal wind up process, and in the event of scheme failure they will be required to consider finding a new founder or closing the scheme. As part of the authorisation criteria schemes will be required to have a continuity of savings strategy. We intend to simplify the bulk transfer requirements to make this a more efficient process.

36. The detailed design of these criteria will be confirmed in subsequent secondary legislation.

Prohibition measure

37. Primary legislation is also intended to introduce a prohibition on trustees from increasing charges levels, imposing new charges or charging members for leaving when a Master Trust intends to leave the market. It is also intended that there is a corresponding prohibition on the trustees of a Master Trust which receives a bulk transfer of members from a failing Master Trust from passing on to its own members the costs from the failing Master Trust. The intention is that the money to pay for these activities will instead be met by the access to funding or capital reserves held in accordance with the new financial stability/reserve requirements. The intention is that this prohibition should be applied retrospectively upon Royal Assent so applying in relation to Master Trusts that have commenced winding up after the introduction of the Bill. This would be likely to mitigate against the significant risks that Bill introduction will trigger hastened departure from the Master Trust market of those schemes that would not intend to seek, or would not expect to achieve, authorisation.

Other options considered

38. An alternative option would involve adjusting the Financial Conduct Authority's remit (FCA) to take regulatory responsibility for Master Trusts. This would mean that the current FCA rules in relation to financial products would apply to Master Trusts.

39. This option was eliminated at an early stage as it would entail applying certain requirements that are disproportionate to Master Trusts, with a risk of potentially forcing some well-established schemes out of business.

40. In addition, this option would entail amending the current regulatory structures wholesale, which would take time and increase familiarisations burdens for the whole of the pensions industry. The preferred option (option 3) applies the current structure of the regulatory landscape, whereby the Pensions Regulator continues to regulate occupational and trust based schemes, and addresses risks related to Master Trusts specifically, rather than replicating wholesale all FCA and PRA regulation.

Costs and Benefits

41. Given that substantive policy decisions will not be taken until the secondary legislation stage the uncertainty over the impacts of the proposal is too great to provide a meaningful EANDCB figure for validation at the primary legislation stage. The following section therefore provides a description of the likely costs and benefits under each option, with an indication of possible

scale where possible. On-going industry consultation will be used to gather more evidence to support the development of secondary legislation.

Impacts on business

42. The key impact on business will fall on Master Trust schemes[12] and the corporate entity that has set up and is sponsoring the scheme, and will relate to:

- The cost of meeting any prescribed standards/requirements (one-off and on-going)
- The cost of assessing these standards
- Familiarisation costs

43. The key assumptions required to assess these costs relate to:

a) The number of Master Trusts affected by each option – TPR estimate there were 84 at January 2016[13]. In order to assess the impact we will need to estimate how many Master Trusts would enter the market under each option, and how many might be expected to exit. On the basis of intelligence gathered through proactive engagement and investigations with a sample of Master Trusts, TPR assume that there will be some natural consolidation of the Master Trust market and some Master Trusts will seek to exit. Currently TPR estimate that this consolidation could reduce the market to around 67 Master Trusts without intervention (option1). TPR have also estimated that under the introduction of an Authorisation regime (option 3) there may be further exits from the market of Master Trusts that do not seek or fail to achieve authorisation. This could reduce the number of Master Trusts to around 54. It is expected that the market outcome under option 2 would fall somewhere between these estimates. There is considerable uncertainty inherent in these estimates but Industry engagement broadly supports the broad assumption that market consolidation and exits are to be expected.

b) Estimated time (and associated costs) for Master Trust schemes in meeting and assessing standards, as well as familiarisation with the new process and supervisory regime – it is not possible to provide meaningful cost estimates without further detail on the precise standards that will be required under each option. Costs are likely to vary considerably between Master Trusts given that existing standards will vary, and the costs for a relatively small Master Trust may differ from very large schemes. This will be an area for sensitivity analysis and scenario testing for the impact assessment supporting the secondary legislation.

Impacts on members

44. The key impact on members relates to the level of risk/protection and the likelihood of any loss of member benefits (savings). There is reliable evidence on the current size of membership across Master-Trust schemes (4.3m), the total value of assets under management (£8.1bn), and forecast growth in members, but the likelihood of scheme failure is unknown. There have been two recent failures of Master Trust schemes; both relatively small schemes with 7,500 members in total which TPR have indicated were straightforward cases to manage. In these cases the

[12] It is possible that schemes may pass on any increase in costs to employers (or members) through increased fees or charges, but this would be indirect, and a transfer that would not affect net cost to business.

[13] This figure is subject to some uncertainty as there is currently no requirement for a Master Trust to identify itself as a Master Trust when it registers with the TPR upon its establishment and it is a rapidly changing market

member assets were transferred into other pension schemes without any significant known member detriment, although this risk remains for other schemes.

Wider impacts

45. There are potential impacts on TPR and the ICAEW to consider – see 'Other' impacts in table below.

46. Finally, there may be important indirect effects on wider consumer confidence in pension savings. Any (real or perceived) gap in the regulatory framework may undermine confidence in the system and put at risk the success of automatic enrolment in delivering an additional 9 million individuals newly saving or saving more, increasing annual workplace pension saving by £15bn.

Prohibition measure

47. The Bill also introduces a prohibition to protect members from increased costs as a result of a failure of a Master Trust. The prohibition is on increasing charges, introducing new charges, or charging a member for transfer during a specific period where the scheme is at risk. The prohibition may lead to some MTs to leave/exit the market, but it is not possible to predict how many and which MTs might wind up solely due to this prohibition, or in comparison to other measures in the authorisation regime. As the cost of wind up would vary across MTs due to a range of factors including: the number of members in the scheme, the assets under management and any existing funding strategies, it would be difficult to make robust assumptions about the impact of this measure.

48. The prohibition will affect where schemes and the corporate entities standing behind the schemes can take or find the money to pay for additional costs in relation to winding up and other costs associated with a Master Trust following a trigger event occurring. This may incur costs to the corporate entity or the scheme. However, the prohibition itself does not require schemes to wind up, and in some cases, the founder of the MT will have a choice as to whether to wind up or not. In these cases, it is reasonable to assume that those who choose to wind up would only do so if the benefits covered the costs of wind up, and have zero impact. In other cases, there may be a cost, but as the extent of closures, and the state of the individual schemes are not known, we are unable to quantify this cost at the current time.

Option appraisal

	OPTION 1: Do Nothing	**OPTION 2: Make MTAF Compulsory**	**OPTION 3: Introduce new compulsory authorisation process**
Master Trusts	No additional costs. Those schemes choosing to take part in voluntary MTAF accreditation process will incur costs but no scheme is required to do	*Familiarisation costs* We assumed minimal costs associated with familiarisation as awareness of the MTAF within the industry is already high. All existing Master Trusts will need to familiarise with the requirements in the legislation so they understand that the MTAF will be made compulsory. At a minimum this will require a trustee from each of the 84 Master Trusts to read up to 8 pages of	*Familiarisation costs* All existing Master Trusts will need to familiarise with the requirements in the primary legislation, consisting of both the general requirements for authorisation, and the specific prohibition requirement. It is estimated that this will take a trustee for each of the 84 Master Trusts around 4.5 hours of work to read and digest somewhere in the region of 40 pages of information.

	so.	information. Based on average reading speeds and including time for digesting the information, we estimate that will take around 30 minutes. In addition all Master Trusts, other than the 11 which have already achieved MTAF status, will need to familiarise with the requirements and processes of the MTAF before undertaking it. The costs of this are estimated on the basis of it taking a trustee from each of the 73 affected MTs around 2 hours to read and digest the material available on the TPR website. Assuming a wage of £25.34 per hour for a trustee (based on ASHE 2015 wage level for a professional, uplifting by 27% to account for non-wage costs), this gives total familiarisation costs of **£4,800**. *The cost of assessing standards* The 56 (post baseline consolidation minus the 11 already accredited) schemes that have not already successfully completed MTAF will incur costs. Industry sources have quoted costs associated with achieving Master Trust assurance status through an independent accountant ranging from £25,000 to £100,000 per scheme (for schemes that have already gone through the process). Taking a mid-point gives an estimated average cost per scheme of £62,500, and suggests one-off costs of approximately **£3.5m** (with a range of between £1.2m and £6.6m). The costs estimated here are for the initial accreditation under Phase 1 for the MTAF. There is a subsequent phase 2 element to the MTAF which typically incurs a smaller additional cost for schemes to demonstrate their compliance at a follow up stage. *The cost of meeting standards* There will be further costs where schemes do not already meet the standards necessary to achieve assurance. These costs will vary depending on the current	In addition when the policy is implemented, all remaining Master Trusts will need further familiarisation of the exact requirements for authorisation as set out in the secondary legislation. At a minimum this is assumed to take a further 4 hours of work for a trustee in each Master Trust. TPR estimate that around 20% of existing MTs will exit the market prior to the introduction of the authorisation regime due to natural consolidation, leaving around 67 which would face this cost. Assuming a wage of £25.34 per hour for a trustee (based on ASHE 2015 wage level for a professional, uplifting by 27% to account for non-wage costs), this gives total familiarisation costs of **£16,400**. *The cost of assessing standards* TPR assume that there would be some further consolidation of Master Trusts prior to the introduction of the authorisation regime, so we assume that 67 Master Trusts could seek authorisation, but not all would be expected to obtain authorisation (or may exit after authorisation). Additionally, TPR estimate that the number of Master Trusts may reduce to 54 schemes in 'steady state' following the introduction of a new authorisation process. The cost of achieving initial authorisation and on-going costs including providing information and materials to TPR depend on the specific authorisation criteria and requirements to be set out in secondary legislation. Without this detail it is not possible to monetise these costs. Given that the scope and scale of authorisation goes beyond the MTAF it is reasonable to assume that the costs would be higher than those estimated under Option 2. For example, additional costs to TPR as a result of additional activities and enhance role will be funded through an authorisation fee payable by Master Trusts seeking authorisation and a change to the general levy for Master Trusts.

		governance and control processes in place within each scheme. Industry engagement suggests that most schemes would not be expected to incur material costs to achieve MTAF standards, but we do not have a monetised estimate.	As an <u>illustrative example</u>, if we assumed all 67 Master Trusts went through the authorisation process, and took the top end of the cost range under MTAF this would mean costs of **£6.7m.** *The cost of meeting standards* One-off and ongoing costs of meeting the prescribed standards and requirements for authorisation will depend on details to be determined in the secondary legislation and so have not been monetised. A qualitative assessment has been made further below. *Prohibition Measure* The prohibition will effect where schemes and the corporate entities standing behind the schemes can take or find the money to pay for additional costs in relation to winding up and other costs associated with a MT following a trigger event occurring. This may incur costs to some of the corporate entities or the schemes – but as the extent of closures, and the state of the individual schemes are not known, we are unable to quantify this cost at the current time.
Members	Without intervention the risk to members is high, relative to other options considered. Currently 4.3m members with £8.1bn assets are managed in Master Trust schemes.	Members in any Master Trust scheme that were not accredited in the baseline will benefit from a greater level of reassurance, though this option does not mitigate all key risks identified. We do not know how many members or the value of benefits covered by the schemes not already accredited. We do not have information on the likelihood of Master Trust failure at this stage so have not been able to monetise these benefits.	This option is designed to provide appropriate member protection, addressing the kinds of risks that are addressed in the regulation of single-employer trust-based or Group Personal Pensions. Though we are unable to quantify the change in risk or the value of associated increased protection, this option will deliver the greatest protection for members of those considered. The new authorisation process and supervision regime will provide greater mitigation against a broader range of identified risks to members, in particular through additional financial stability and safe failure requirements. Furthermore, the supervision regime will allow TPR to identify which schemes are carrying risks that leave them susceptible to winding up and ensure fair warning of a risk event in a scheme and enable

			intervention. The primary legislation introduces a prohibition intended to protect members from increased costs when a Master Trust exits the market.
Wider Impacts	This option is weakest in terms of confidence in the market. Industry, TPR, and parliament all recognise existing gaps in member protection and the threat this poses to pension savings.	This option should increase confidence, but without addressing all key risks we would expect continued threat of lack of confidence undermining pension saving.	Given that the level of member protection is greatest in this option, the associated level of confidence in pension savings is greatest. By closing identified loop-holes in the existing regulatory framework we would expect an increase in wider system confidence. Introducing specific protections for members through the intended prohibition will further enhance this. The requirement for firms to be authorised before taking on members will provide additional reassurance.
Other		It is possible that schemes would pass on some or all of the costs incurred to employers or members. We have not sought to estimate this impact, which would represent a transfer rather than an additional cost. If a scheme were to fail MTAF there would need to be educate, enablement and enforcement measures which would bring additional costs. These measures have not been fully developed since this is not the preferred option. Where schemes exit the market we assume a managed transfer of members from the exiting scheme to another existing Master Trust. In recent cases of scheme failure, the additional cost incurred by TPR where existing pots were 'grandfathered' into another scheme is estimated to be £10,000 per case. In the event of more complex or larger scheme failure TPR estimate that their additional costs would be in the region of £50k per case. There may also be a benefit to the ICAEW which currently administers the MTAF accreditation and charges a fee to schemes for this.	TPR estimate that introducing an authorisation process will increase their expenditure by £9.1m-£9.5m in the first 5 years (depending on the level of market consolidation), covering definition, design & development, and steady state run cost. This estimate is highly speculative given the level of uncertainty over the specification of the authorisation regime. The main driver of increased resource is the additional activity required to authorise and supervise Master Trusts. There are fixed IT costs required to change the existing TPR IT architecture to enable collection of additional information required under new powers. Where schemes exit the market we assume a managed transfer of members from the exiting scheme to another existing Master Trust. As with Option 2 TPR estimate that their additional costs in relation to scheme failure would be in the region of £50k per case. With the new regime these costs will not necessarily be directly comparable as there are different requirements on schemes, trustees and different powers for TPR for this scenario. There may also be a cost to the ICAEW which currently administers the MTAF accreditation and charges a fee to schemes for this. It is

			undecided as to any role the ICAEW will have under the proposed Authorisation regime so this has not been monetised.

Building the evidence base

49. The primary legislation will set out the framework for the four authorisation criteria for Master Trusts, along with TPR powers, the prohibition and certain requirements on schemes in relation to continuity of savings strategies. At this stage it is not possible to provide an accurate assessment of the costs of meeting authorisation criteria, as the detail of the process and the standards applied will be set out in secondary legislation. We will be working up the timetable for secondary legislation including full public consultation on policy, draft regulations and further round tables following Royal Assent. However, this section provides a qualitative assessment of potential costs for Master Trusts in relation to each of the authorisation criteria. Across all criteria we would expect the initial costs of compliance with a new authorisation regime to vary between Master Trusts, depending on the extent to which they may already meet new criteria. However, over the longer term we would expect these compliance costs to stabilise.

50. *Competence & Integrity* – some Master Trusts may be able to demonstrate competence and integrity of their founders and trustees from existing processes they have already completed. Scheme return data held by TPR suggests that 41 schemes are part of a corporate group that has some existing FCA registration in other parts of its business. It is reasonable to assume that the founders of these Master trusts may already have demonstrated their competence and integrity in relation to the financial history and integrity of the individual, although it is possible that requirements will differ from specific FCA criteria – depending on the function in the Master Trust. Others may incur costs to satisfy the criteria on competence and integrity. TPR intelligence based on preliminary assessment suggests there may be a small number of schemes where there would be concerns about founder competence although these are not based on specific competence and integrity criteria that may be developed for Authorisation.

51. *Systems & Processes* – At this stage we would assume that schemes that have met the governance and admin requirements within the MTAF would have negligible costs in meeting this criterion.

52. *Financial stability* - The requirement for founders to hold a certain amount of capital in case of a failure may impose the most significant costs for schemes. However, the costs will be sensitive to both the extent that the founders already do this, and to the level of capital required, which will be determined following further consultation. In this context the key factor is to hold sufficient assets or backing to cover the period in which the scheme is building to sustainability, to cover circa 12 months operating costs, and to cover the costs of wind up/deliver their continuity of savings strategy, or other market exit. Industry response to roundtable events indicates that several of the larger Master Trust schemes already have some form of capital requirements in place through the requirements imposed on other parts of their broader business (for instance FCA insolvency requirements). For some other existing Master Trusts that are run on a Not for Profit (NFP) basis, there has been some suggestion from the roundtables with schemes that meeting this criteria could result in an increase in charges for employers, which may incur an additional indirect cost to business (though this would be a transfer, rather than a net additional cost). It is estimated that there are 26 existing Master Trusts on a NFP basis (including NEST), representing the vast majority of the market, with around 4 million members.

53. The costs of producing a business plan will also be sensitive to what schemes already have in place. TPR evidence suggests that 80% of the schemes they have had proactive engagement with had or were working to produce and share business plans, though none of those shared to date were considered by TPR to be of sufficiently high standard. There is likely to be some costs for schemes to develop their business plans to satisfy this criteria.

54. Costs associated, where relevant, with becoming a corporation or company and providing accounts – TPR's engagement indicates the majority of corporate entities sponsoring Master Trusts have already set themselves up in this fashion.

55. *Continuity of savings* – engagement with Master Trusts and evidence from TPR indicates that some existing Master Trusts already have some form of exit strategy or discontinuance plan in place, although there is wide variation in the level of detailed planning. For some there are funds in place to cover their exit – for some schemes this is based on a specific fund to cover winding up costs, for others it is on the basis of the founding company funding the winding up costs. The requirements planned for primary legislation will specify the options available to schemes that hit specified trigger events in order to ensure members can continue to save (for example by transferring to another scheme) and employers continue to meet their automatic enrolment duties. Master Trusts will be limited in regard to using members' rights to pay for winding up costs, and primary legislation will require that the scheme must move the members out of the scheme and into another scheme before commencing winding up. Simplifying bulk transfers will help to make this process as efficient as possible, and we are exploring how this can be achieved, including the role of NEST and the wider industry

56. Primary legislation will also introduce a prohibition to protect members from costs where a Master Trust exits the market. The scale of the impact of this prohibition on costs to business will relate to how many extra Master Trusts would wind up, the cost of winding up, and/or the level at which the Master Trusts would have used member benefits to pay for winding up costs (in the absence of a prohibition). However, it is not possible to provide an estimate of these costs or how they interact.

57. The provision of enhanced supervisory powers and responsibilities to TPR, and mandating / strengthening the provision of regular supervisory returns from Master Trusts to TPR to fulfil its enhanced duties will be part of the primary legislation. In addition, DWP will be undertaking further consultation with the relevant stakeholders and industry in the development of the more detailed authorisation criteria standards for their introduction in secondary legislation.

Rationale and evidence that justify the level of analysis used

58. This is a Bill impact assessment for primary legislation that introduces requirements on Master Trust schemes to be authorised in order to take on members, requirements on schemes in terms of options open to them when the founder wishes to exit or becomes insolvent, and powers for TPR to authorise (or refuse to authorise) a Master Trust and operate an on-going supervision regime. The primary legislation does not specify detailed authorisation criteria in terms of the specific requirements or standards that Master Trusts will need to meet. Detailed requirements will be set out in subsequent secondary legislation which we would expect to be set out shortly after Royal Assent.

59. Given that substantive policy decisions will not be taken until the secondary legislation stage the uncertainty over the impacts of the proposal is too great to provide a meaningful EANDCB figure for validation at the primary legislation stage.

60. We have used all available evidence from published data and research, TPR analysis, and industry engagement to consider a qualitative assessment of the possible impacts under each option, and to quantify the scale of potential effects where possible. Further evidence is required to produce a more detailed assessment for the subsequent secondary legislation that will define the authorisation criteria.

Risks and assumptions

61. The key risks are:

a) The uncertainty of likelihood of Master Trust failure, the number of members and size of assets at risk – at this stage we have estimates of the existing and likely future scale of the market, but we do not have reliable estimates to quantify the risk of failure

b) The costs to business of meeting the authorisation criteria can't be estimated until the criteria to be specified in secondary legislation are clarified – at this stage we assume that there will be costs to corporate entities that sponsor Master Trusts and also to some Master Trusts themselves, but it is not possible to produce a meaningful EANDCB

c) The impact of intervention on the size of the market. We can reasonably assume that additional requirements will reduce the number of potential market entrants and may lead some existing Master Trusts to exit, but there is considerable uncertainty of the precise level of future market consolidation. This is an important assumption since a large determinant of the EANDCB for subsequent secondary legislation will be calculated as an average cost(s) per scheme.

Direct costs and benefits to business (OI3O)

62. At this stage, the Government has insufficient evidence to fully quantify the regulatory impact of this measure. The Department will produce estimates of costs relating to Master Trusts in an updated impact assessment once further detail has been clarified on the specific criteria that will form the authorisation regime in secondary legislation.

Small and Micro Business Assessment

63. Master Trusts tend to be large schemes or have ambitions to be large schemes. The companies who establish them and stand behind them vary in size. Though the exact number of small or microbusinesses (defined as having up to 49 FTE and 10 FTE employees respectively, as per the Better Regulation Framework Manual) in this market is unknown, we expect both types of companies to operate in this sector.

64. The Government believes that including all Master Trusts regardless of size of business (the scheme or the corporate entity establishing or standing behind them) is the only way to ensure equivalent protection for members within the market. The intention is not to impose any disproportionate burden on companies of any size. A more detailed small and microbusiness assessment will be discussed in full in the Impact Assessment accompanying secondary legislation, including a detailed assessment of the need for exemptions (full or partial) or actions to mitigate burdens on these businesses.

Summary and preferred option

65. The proposal is for primary legislation to make provision for a compulsory Master Trust Authorisation regime. The detail of the authorisation regime will follow in secondary legislation and this option as a whole fulfils the policy objectives. It addresses the key risks that are arising in Master Trust schemes and from which members in other types of pension schemes are already protected. It thereby addresses a regulatory gap in terms of protection to pension scheme members. It also provides the powers for TPR to supervise and intervene or support Master Trusts as necessary to mitigate the risks.

66. There is a desire across industry for the implementation of the proposal to take place as swiftly as possible to prevent poor quality Master Trusts undercutting those who have voluntarily acted to address risks, protect members in existing Master Trust schemes and provide certainty about the nature of future regulation of this sector. The Government shares this view and is committed to working with the industry and consumer protection groups to better understand the costs and benefits of the options for the detailed measures that will be provided for in secondary legislation.