Work and Pensions Committee
House of Commons, London, SW1A 0AA
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From the Chair

Guy Opperman
Minister for Pensions and Financial Inclusion
Department for Work and Pensions

6 October 2020

Dear Guy,

I very much welcome the news that you have established a working group to address the current problem of proliferating small pension pots.

As you know, I wrote to the industry over summer asking for workable solutions for consolidating very small pots and I wanted to share with you the views we have been sent so far. The Committee looks forward to seeing the working group's initial assessment, recommendations and indicative roadmap. We intend to consider this topic further early next year and help inform your work.

With best wishes,

Stephen Timms

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee

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Rt Hon Stephen Timms MP
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28 August 2020

Making auto enrolment work

Dear Mr Timms,

We welcome your invitation to contribute ideas and evidence to address the current problem of proliferating small pots. Left unaddressed this issue will undermine the success of the whole auto enrolment project and weaken the chances of a happy retirement for millions.

At PensionBee we are coming across these challenges daily. Established in 2014, we are an online pension provider offering good value, easy to use private pensions for savers. PensionBee customers are on average 41 years old, have an average pension of £20K and >80% live outside of London.

We are uniquely positioned to understand the consumer experience and our transfer data from >100K pensions highlights a growing problem. When a customer signs up to our service they must transfer one old pension, but it is not uncommon to see customers sign up with 10 - 18 pensions.

Whilst the Default Charge Cap consultation focuses on the merits of different charging structures, our experience, which echoes the recent work of the PPI, is that charges are a symptom of a deeper problem. The underlying issue is that savers are being overwhelmed by a tidal wave of tiny pots that they cannot keep track of.

Frequent job changes have resulted in millions of pots with values smaller than the annual cost of their administration. Ordinary savers are overcome with confusion and overburdened with paperwork. The prevailing feeling is that pensions are too difficult to understand and impossible to feel in control of. Unfortunately, further dislocation of the labour market brought about by Covid-19 will see a further sharp increase in small deferred pots.

There is a practical solution that allows owners to easily consolidate old pots. Reuniting owners with the many million deferred pots would also make the administration of these pots financially sustainable for the auto enrolment providers.

There are currently many barriers to swift, frictionless consolidation of pension pots in the UK. Under s99(2)(b) of the Pensions Schemes Act 1993 providers still legally have six months to move a defined contribution pot.

This legislation is out of step with what modern digital technology can allow providers to deliver cost efficiently for their customers. Legislation that is almost thirty years out of date means providers can take months, rather than days, to transfer a pension.

A saver's attempt to consolidate their pensions can be frustrated by a provider, who may want to hold onto the assets. Whilst many providers do this in a timely and efficient way, it is not the case for the whole industry. In Australia transfers are mandated to take 3 days in a way that also protects consumers from any adverse effects.

A Pension Switch Guarantee would bring urgent and much needed change for pension savers who wish to be reunited with their old pots. It would also bring long overdue consumer switching rights to the pensions space, such as exist in other regulated industries like banking and energy.

A Pension Switch Guarantee would solve two pressing issues: charges and pot proliferation. Only when a pot reaches £4K does it become financially sustainable for a provider to administer under a simple annual charging model. Those on low incomes who frequently change jobs can only achieve this pot size through consolidation. Switching guarantees would ensure all savers can easily, quickly and transparently move their pensions around the system.

This change is becoming ever more urgent as the industry has been unsuccessfully grappling with self-regulation of transfers for years. In February 2016, various pensions trade associations established a group that would '*drive forward best practice in transfers*'. Almost five years of debate later, there has been no discernible improvement for consumers. Self-regulation in this area clearly does not work.

A small change to primary legislation that could be brought in as part of an amendment to the existing Pension Schemes Bill would resolve this issue and enable auto enrolment to work in that way it was designed to. On the contrary, failure to resolve this could mean the unravelling of auto enrolment successes to date.

The policy objective of auto enrolment was happier retirements for more people; transfer legislation must be updated to support that. We would love the opportunity to meet you, in the first instance, or the Committee to discuss the issues outlined – and a way forward – in more detail.

Kind regards,

Romi Savova
Chief Executive Officer of PensionBee

Background

On July 31st 2020, following a meeting with the Chair of the Select Committee, Rt. Hon Stephen Timms MP, we received a letter asking NOW Pensions and other industry players to consider *contributing ideas and evidence to address the current problem of proliferating small pension pots.*

This invitation follows the Department for Work and Pensions call for evidence to assist them in reviewing the default fund charge cap and standardised cost disclosure for pension schemes.

Now: Pensions has submitted evidence to the Department of Work and Pensions on this subject. In addition, we welcome the opportunity to submit our thinking on the issue of small pots around to the Committee. We support the initiative of writing to the industry to canvass ideas to address the issue.

About us

This response to the Committee has been prepared by NOW: Pensions Ltd. and NOW: Pension Trustee Ltd, collectively known as NOW: Pensions.

NOW: Pensions is one of the UK's largest pension schemes. We look after the pension savings of 1.76 million members and around 30,000 employers from a wide range of industry sectors. The Scheme has £1.87 billion of assets under management.

We have a clear mission – to help everyone save for a more financially secure future. This means achieving the best financial outcomes for our own members, while fighting for a fair pension system to enable all pension savers to enjoy the retirement they deserve. We do this by highlighting pension inequalities and campaigning for change.

NOW: Pensions is part of the Cardano Group, a market leader in providing risk and investment management services that help make pensions outcomes more stable and robust.

Introduction

Auto enrolment is one of the most successful public policy interventions in a generation. It has brought many millions of people into pensions saving who were previously ignored by the pensions sector.

As advocates for auto enrolment, NOW: Pensions has taken the view that selecting employers on the basis of their projected profitability does not support the ambitions of the Government on social inclusion, shared by NOW: Pensions, or the needs of society for retirement savings for all. We have played a leading role in meeting the needs of small employers and agency-type workers with high turnover rates who were previously un-pensioned.

Potential solutions to address the issue of small pots are many and complex. Now: Pensions commissioned a report by the Pensions Policy institute to look into the possible solutions and we are pleased to have contributed this material to the ongoing discussions.

The solutions researched by the PPI are captured in the table below which also outlines the potential positive and negative implications for each of the solutions.

Policy	Potential positives	Potential negatives
Dashboards	Encourages engagement	Potential for lower levels of consolidation
Same provider consolidation	Simplicity Reduces administrative burden on providers and employers	Less comprehensive coverage Potential for 'cherry picking'
Pot follows member	More comprehensive coverage Reduced administrate burden on employers	Increased pot erosion resulting from transfers to schemes with higher fees Increased administrative burden for providers Potential for 'cherry picking'
Member exchange	a simpler version of pot follows member	Less comprehensive coverage than pot follows member Delay in transfers leading to pot erosion Potential for 'cherry picking'
Lifetime provider	Policy simplicity Ease of administration Most comprehensive coverage	Unfair competitive advantage Significant systemic change Increased administrative burden for employers Potential for 'cherry picking' Delay leading to increased small pot generation
Default consolidator	Most comprehensive coverage Provides for those who change jobs frequently or move in and out of work Low administrative burden on employers	Unfair competitive advantage Delay in transfers leading to pot erosion Potential for 'cherry picking'

The report does not however conclude that there is a single solution to this problem, indeed NOW: Pensions will need to do its own modelling on these potential scenarios in order to understand which of them is in the best interests of our members.

We will write a follow up submission to the committee by the deadline of 2nd November when we have done sufficient modelling work to have a fully informed view.

However, we would stress that without such a long-term solution we risk undermining auto-enrolment and the significant progress this policy represents in UK retirement savings. We have set out the issues which a small pots solution needs to address below.

These include: a charge cap, charging structures, costs of small pots, cross subsidies of active to inactive members.

Issues to address

1. The level of the charge cap

Master trusts and auto enrolment provide good value for members (by international and historical standards) and most – including NOW: Pensions – are operating significantly below the price cap. Trustees report regularly to The Pensions Regulator (TPR) and members on value for members. If there are schemes that are not providing value for members, TPR should be charged with discussing charging levels with those providers. ***We do not, therefore, believe it is appropriate to reduce the level of the price cap.***

2. Charging structures

We welcome DWP's recognition of the importance of combination charges. These are important in guarding against excessive cross-subsidy between members, are simple for members to understand and ensure that members get charged appropriately for the costs incurred in managing their pension. They also underpin the financial sustainability of providers.

The distinction needs to be drawn between the 'new breed' of master trust providers that are serving the previously under-pensioned and those set up by providers who have adopted the master trust framework, but that continue to focus almost exclusively on their traditional base of larger, more stable and better paid workforces.

It is notable that all five, core, auto enrolment providers have some form of combination charge. Importantly, it is these core auto enrolment providers – created specifically to serve the auto enrolment market – that have done the 'heavy lifting' by ensuring that the Government's goals for auto enrolment can be met.

For these new providers who have stepped in to serve the auto enrolment demographic previously ignored by the traditional providers, combination charges also play an important part in supporting the providers' financial sustainability – required by legislation, but above all essential for members' security. We recognise, however, DWP's concern that combination charges can lead to some members having their pots eroded by charges. We share that concern.

However, setting the level of floor below which charges cannot be levied (and members' pots therefore cannot be charged out) is a careful balancing act between: fairness to all members, and ensuring the existence of a cap does not introduce cross-subsidy; not creating a disincentive to members to transfer to combine their pots; and not undermining the financial sustainability of the master trusts, which would not be in members' best interests. Any floor should also be simple for members to understand and for providers to administer.

Taking all these factors into account we believe it would be appropriate to set the floor below which charges cannot be levied at £50.00. This will ensure that small, deferred pots cannot be charged out.

3. The costs of small pots and their risk to auto – enrolment

The growth of administration costs attached to small pots is already undermining the market and the success of the policy:

- PPI estimates an average administration cost for deferred members of £13 a year to manage even when dormant, whereas active pots cost an average of £19 a year.[1]
- The current 8 million small pots are costing £130 million a year

[1] PPI policy options for tackling the growing number of small pots, July 2020

- PPI predicts this is likely to increase to 27m by 2035[2]

To cover costs for deferred pots mastertrusts currently have two options:

- Option 1: to adjust the cost upwards for everybody else which is cross-subsidisation
    - If we charged deferred members the AMC required to break even that would be 2.25% which is in excess of the charge cap and would constitute an active member discount if not also levied on active members
- Option 2: to become financially unsustainable (which would mean that NEST would have to take all members and pots of all sizes, increasing the cost to government for NEST's loan)

4. Active members cross subsidising inactive members

One of the issues which the Government rightly addressed in 2015 was the banning of Active Member Discounts. We welcome this move. However, without addressing the proliferation of small pots and appropriate combination charging, there is a risk that active member discounts could be replaced by active member penalties because small inactive pots would be cross subsidised by active members trying to save for retirement.

Conclusion

We must not ignore the underlying issue causing these issues which are so detrimental to savers. The rate at which there is a proliferation of small pots is exacerbating the problems, undermining active saving and as a result putting all AE saving at risk. Small and deferred pots are estimated to grow by 27m by 2035. The issue must be urgently addressed. However, the solutions are not simple and there is unlikely to be a single, silver bullet.

The immediate need is to get a short-term solution which balances reducing the 'charging out' issue while ensuring the financial sustainability of the new, Mastertrusts (which have been doing the heavy lifting of auto-enrolment). This will give time to develop and implement a really sustainable solution.

As the Chair of the Work and Pensions Committee himself said recently at a PPI event it would be 'wrong to snatch at a solution'. We believe such a solution must be properly stress tested to ensure it delivers the best value for members.

We are therefore recommending that the Government and the pensions industry come together to create a 'taskforce' to consider the issues. This taskforce should be small, focussed and build on the principles of auto enrolment. It must deliver solutions designed around the needs of the savers for whom auto enrolment was created and who are most likely to be impacted by more rapid labour runover.

NOW: Pensions therefore welcomes the continued interest of the Work and Pensions Committee on the issue of small deferred pots. We are grateful for the focus that the Work and Pensions Committee will bring on Government to resolve the issue of the rapid growth of small dormant pots.

[2] PPI policy options for tackling the growing number of small pots, July 2020

10th September 2020

Dear Stephen,

Thank you for your letter of 31st July inviting input on the subject of the proliferation of small pension pots, particularly since the introduction of automatic enrolment. I am replying as Head of Defined Contribution at LCP.

1. The scale and nature of the problem

Before moving on to solutions, it is worth being clear about the scale and nature of the problem of the proliferation of small pension pots.

In terms of scale, a growing number of deferred members is certainly an issue for some of the single employer occupational pension schemes which we advise. Particularly in sectors where there is high job turnover, the number of deferred members is growing quickly, and many of these leave behind relatively small DC pots. There are some costs of administering pensions which are the same whether an individual has a large pot or a small pot, and this growth in overall membership can therefore increase the cost of running the scheme – a cost which ultimately means there is less money to be spent on members' pensions.

The accumulation of large numbers of small pension pots is however most acute in the Master Trust sector, where the largest Master Trusts can have millions of members with small and inactive pots.

There are several reasons why this situation is undesirable:

- **Member engagement is likely to be lower** if they have multiple low value pension pots rather than one larger pot;

- As noted above, there are certain fixed costs to administering a pension, regardless of pot size. **Total costs are higher** where a member's pension savings are split over multiple pots; this is largely wasted money which would be better spent on pensions;

- As noted in the latest DWP consultation, **certain fee structures can lead to the erosion of smaller pots** and, in extreme cases, could eventually wipe out the value of the pot;

- People with large numbers of pension pots are more likely to **lose track** of them; whilst the pensions dashboard should help with this, it will not completely solve the problem;

In the following discussion we assume that any 'solution' finds a way of keeping this money in pensions. It could be that part of any solution would be for the very smallest 'micro' pots simply to be cashed out, but beyond this level we think it would be preferable to find ways to consolidate what pension savings people have managed to achieve, especially given the inadequate overall level of pension saving in the UK.

2. Potential solutions

It is generally accepted that in most cases, consolidation of smaller pots is likely to lead to better outcomes and lower costs, but we believe that there are several reasons why solutions built around consolidation either by members or by providers need to be designed with great care to avoid member detriment.

a) Member-driven consolidation

In some solutions, members would be encouraged to consolidate their own pension pots. The pensions dashboard could be part of this process, though the House of Lords have recently – and rightly – highlighted the risks of making this process 'too easy', and exposing savers to scams.

Key concerns around relying on member-driven consolidation are:

- Engagement – would members think it was worth their time to move small pension pots from one scheme or provider to another?

- Hassle – although there are important initiatives designed to smooth pension transfers such as the Origo system and the STAR initiative, all too often it can take a long time to move pensions around

- Getting it wrong – tailored financial advice is unlikely to be affordable for most people when dealing with small pension pots, but those who do not take advice could lose out in a number of ways:

    - **Consolidating into the 'wrong' pot** – it may not be obvious which is the best place to consolidate small pots – for example, is it the one with the lowest charges, or the one that has shown the best investment returns?
    - **Throwing away valuable features of old pots** – a minority of old pots have valuable features such as 'guaranteed annuity rates' or more favourable tax relief rules; consolidating these could involve throwing away valuable benefits;
    - **Costs of transferring** (eg exit penalties, transaction costs and other charges) could be greater than the benefits
    - **Loss of 'small pot privileges'** such as the ability to 'trivially commute' a pot into cash, and the exclusion of small pots from counting against Lifetime Allowance limits for tax relief;
    - **Risk of scammers** setting up and scooping up all of a member's pension savings

b) *Automatic / default consolidation*

A variety of potential solutions involve automatic consolidation, possibly with a member opt-out. This could include 'pot follows member', where small pots are automatically carried forward to the new active pot, or 'default consolidation' where stranded pots are 'swept up' into NEST or some other consolidation vehicle if they are left behind for more than a set period.

Whilst these approaches have the attraction that they do not depend on member engagement and potentially remove hassle from the member, there are a number of factors which need to be considered:

- **Variation in costs and performance between schemes** – in an extreme case, a worker might go from firm A to firm B, both of which use the same Master Trust with the same investment offering and services, but where firm A has negotiated lower charges; if the pot built up with firm A is consolidated into the pot with firm B, there is a risk of higher overall costs to the member for the same product; more generally, any automatic transfer has the risk of a move from a lower cost or high-performing scheme, to a higher cost or lower-performing scheme, and members who lost out as a result might challenge the process after the event; policy makers will have to weight this significant downside risk against the overall advantages of consolidation;

- **Members not in default funds** – where a member has opted out of the default fund – perhaps into an ethical or Sharia-compliant fund – there is a risk than an automatic transfer will move their money (with little involvement) back into a default fund that is not in line with their values or objectives; at the very least, this suggests that any 'automatic' transfer mechanism needs to have a clear and effective process for member opt-out;

c) *Single pot solutions*

The two broad approaches above start from the assumption that people will build up lots of pots which then need to be consolidated. An alternative approach is to make sure that in most cases people only have one pension pot. This could be done in two ways:

- **One provider for life** – at the start of a career, workers would choose (or be allocated) a pension arrangement into which all future contributions would be made; note that this would be a major change from the current system where the employer typically chooses a single arrangement for the entire workforce;

- **'Pot Follows member'** – in this version, a member builds up a pension with whichever provider has been chosen by the current employer and, if they leave behind a small pot, this small pot automatically 'follows' the member to a new provider when they change job; consumer research undertaken by DWP indicated that this approach made sense to consumers and was relatively popular as a concept;

Both of these approaches have the advantage that people will generally build up one larger pension pot with which they are more likely to be fully engaged.

One of the problems with the 'one provider for life' model is that overall costs could rise. In countries (such as Australia) where this model applies, marketing costs are high as providers compete to be the chosen provider of the lifetime pot. These costs are much smaller in the UK as a single provider is chosen by an employer for a complete workplace. Another disadvantage is that providers could 'cherry-pick' high earners, leaving low earners without access to low cost pension provision of the sort they may currently enjoy as part of a bulk deal struck by their employer with a single pension provider. One response would be give all providers a 'public service' duty to accept any member who approached them, but this would not entirely eliminate the risk of additional costs as providers chased after savers with larger pots.

'Pot follows member' avoids some of these problems but does suffer from some of the drawbacks noted in the last section, notably the risk of an automatic transfer to an inferior scheme and the particular issues for those not in default funds, doing this just for small pots reduces some of these risks. There would also need to be a process for managing the transfer of funds from a ceding scheme to a receiving scheme, though it is possible that the new infrastructure for the pensions dashboard could be adapted to help smooth this process.

3. Conclusions

There is no single solution to this issue which does not have its drawbacks. But with no action, there is a risk that growing amounts will be spent administering small pension pots instead of being invested in providing pensions. There is also a risk that the credibility of the whole automatic enrolment project could be undermined if savers who change job regularly find themselves with large numbers of trivial pension pots from different schemes and providers.

As noted above, relying on members to consolidate their own pension pots carries considerable risk of members getting it wrong (especially in the absence of advice) and perhaps more fundamentally the risk that most people will simply not bother and the problem will not go away.

Some form of 'default' or automated consolidation is therefore likely to be necessary. To the extent that members are moving from one (charge-capped) default fund to another, variations in costs are likely to be limited, especially if DWP decide to lower the overall charge cap. But there would need to be evidence that the potential detriment of some people being automatically transferred to a somewhat inferior scheme was outweighed by the advantages of eliminating large numbers of small stranded pots.

In principle, a ‘one-pot’ solution has most to commend it, rather than allowing members to build up multiple pots and then trying to consolidate them. Having one provider for life would require a radical rewriting of automatic enrolment rules and risks being to the detriment of lower earners who currently benefit from cross-subsidy in their workplace scheme. Pot-follows-member would not be without its problems, but it may offer the best balance between costs and benefits for members.

We would be happy to provide the Committee with further written or oral evidence on this topic based on our work with a wide range of pension schemes.

Yours sincerely,

Laura Myers
Partner and Head of DC at LCP

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Rt Hon Stephen Timms MP
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Date: 14 August 2020

By email: workpencom@parliament.uk

Cc to DWP: pensions.charges@dwp.gov.uk

Dear Mr Timms,

WPC open letter to the pensions industry on consolidation of small pension pots

DWP review of the default fund charge cap and standardised cost disclosure: call for evidence

I am writing in response to the invitation in your open letter of 31 July 2000, emailed to me by Anne-Marie Griffiths, the Clerk to the House of Commons Work and Pensions Committee.

This letter sets out some thoughts from the Eversheds Sutherland pensions team about options for consolidating small pension pots.

Whilst we will not be submitting a detailed response to the call for evidence issued by the DWP, we are copying this letter to them for consideration together with the other responses they receive, in particular in connection with question 12 in the call for evidence.

Introduction

We have one of the largest teams of pensions lawyers in the UK, with over 65 specialist pension lawyers. Our clients include employers, trustees of a number of the UK's largest public and private sector occupational pension schemes, master trusts, insurance companies and pension providers.

This letter represents our own views on the issues under discussion and not those of our individual clients (unless expressly stated otherwise). However, in forming our views we have taken account of our clients' interests and concerns as well as considering the potential impact of any changes on individuals, society and the wider pensions industry.

Turning to the particular topic of the proliferation of small pension pots, you will no doubt be aware that on 23 July 2020, the Pensions Policy Institute issued a research paper entitled *"Policy options for tackling the growing number of deferred members with small pots"*. This paper contains a great deal of very useful analysis on a range of consolidation options and on the pros and cons of those options, and would seem to be an obvious starting-point for discussion of possible strategies to tackle the problem.

We agree with a great deal of what the PPI has said in that paper and do not propose to repeat their analysis here, but instead set out our further thoughts below.

General

1. The evidence from the PPI paper is that **any** of the options they consider should materially reduce both the numbers of deferred pots, and the associated member / provider costs. Whilst there is a discussion to be had about which model or models should be adopted, it is difficult to see that "do nothing" is an appropriate option, given this evidence.

2. We agree with the PPI that it would be difficult to have any kind of financial threshold beyond which consolidation would not occur, if only because the volatility of DC pots is such that any threshold is likely to operate in an arbitrary fashion.

Comments on specific options

Same provider consolidation

3. This is potentially an "easy win", in the sense of a change which should be fairly straightforward to implement.

4. There may be cases where the deferred pot benefits from special terms – eg. a discounted AMC which is still subsidised by the former employer – meaning that it is neither possible to reactivate it in connection with a fresh employment nor desirable to amalgamate the deferred pot with the new active one; but the provider should be readily able to identify such cases.

5. Consideration may also need to be given to how to manage a situation where the fund(s) in which the deferred pot is invested is/are not within the range of funds offered by the workplace pension arrangements agreed with the member's new employer (an obvious solution is to keep the existing pot invested in the current funds, and for all new contributions to be directed into the appropriate default or self-selected funds offered by the new employer's arrangements with the provider).

6. In any other case, enrolment back into the deferred pot should be easy to accomplish.

Models involving transfer (pot follows member; default consolidator; member exchange)

7. For any model involving transfer, it seems prudent to make provision for member opt-out. As with auto-enrolment, inertia is likely to mean that most members do not opt out, so that the benefits of consolidation will be achieved in the majority of cases; however, where members have a positive desire to keep their existing pot separate, providing a window for opt-out will reduce the risk of member complaints. Opt-out is also effectively the existing model for buyouts without consent of deferred benefits under the preservation legislation (in the sense that a member who has requested a CETV prior to the transfer date will not be included within the buyout), so the industry already has considerable experience of operating this approach.

8. Similarly, it may be sensible to wait for a minimum period in case the member either ceases to be an active member in the new scheme after only a short period of participation or re-joins the existing scheme and reactivates the dormant pot. If this "waiting period" is not put in place, the pot follows member model, at least, could result in an unnecessary increase in administrative costs as a result of pots needing to undergo multiple transfers as the member moves through a succession of short periods of participation in different employers' schemes. However, we suggest perhaps only waiting for one year, rather than the longer 3-year period suggested in the PPI's discussion of the member exchange model, to minimise erosion of dormant pots.

9. The concern over transfer to a higher-charging scheme needs to be viewed in the wider context of the desire not to have members' benefits fragmented into multiple very small pots, which increases the risk both of erosion through charges, and also of benefits being taken as ad hoc lump sums rather than being used to provide a retirement income. To this can also be added the likelihood that a single larger pot will be more likely to generate member engagement than a series of small pots. If transfer is into a scheme which complies with the default fund charge cap, and therefore definitely meets basic quality standards as regards charging, it can be argued that over time, the beneficial effects of consolidation in growing the member's pot size will outweigh any initial negative effects of being in a higher-charging scheme.

10. To allay concerns over models involving transfer, it may be necessary to create some forms of statutory "safe harbour" provisions to prevent claims being brought against transferring trustees and providers (eg. if the receiving scheme performs less well than the transferring scheme or transferring assets are out of market during a large shift in the stock market). Based on our experience in relation to CETV payments to scam schemes, even if transfer were to be mandatory, that would not necessarily prevent members bringing claims on the basis that (for instance) the transferring scheme should have carried out greater due diligence on the receiving scheme, and/or should have warned the member of any concerns, so that the member could then exercise the right to opt out.

11. The PPI's suggestion that employers with good quality in-house DC schemes may be unable to accept transfers in or unwilling to allow transfers out does not chime with our experience. In general terms, DC schemes are much more likely than DB schemes to allow transfers in; and members with uncrystallised DC funds have an absolute statutory right to transfer out. Obviously, there is a separate question as to whether it is in the member's interests to transfer out, but it seems likely that for members with small dormant pots, it will overall be in their longer-term interests to do so, even if their existing scheme is good quality. Provided that member opt-out from transfer is permitted, and provided that members are made aware of any particular benefits (eg. discounted fee rates) which would be lost as a result of transfer, it should not be necessary to carve in-house DC schemes out of the coverage of any consolidator solution based on transfer, though as noted below, they appear to be incompatible with a lifetime provider model.

12. Similarly, in our experience it is unusual for in-house DC schemes to provide life or disability assurance or pension workshops for deferred members (as distinct from active members). We therefore do not consider that a carve-out for in-house DC schemes would be needed to prevent loss of such benefits.

Dashboards

13. Dashboards will potentially make any consolidation models involving transfer of benefits easier from the provider perspective (assuming the provider is allowed to search the dashboard using a member identifier – eg. NI number - to identify any dormant pots which may need to be consolidated). They will also potentially make it easier for members to decide on whether to exercise any opt-out option, by giving them readier access to information about their different pension arrangements. As such, dashboards are arguably an important, though probably not sufficient, part of the solution.

Lifetime provider

14. The lifetime provider model is an interesting one, but would represent a marked change from the current UK practice. Our thoughts on this include the following.

15. If the number of lifetime providers in the market were to be reasonably small, it seems unlikely that payroll systems would be unable to cope. Employers operating

in some of the public sector fields have employees who are eligible to participate in a range of schemes (eg. a higher education sector employer might participate in all of the Universities Superannuation Scheme, the Teachers' Pension Scheme, the National Health Service Pension Scheme and the Local Government Pension Scheme, as well as potentially operating its own in-house occupational arrangements or providing an alternative workplace pension arrangement for some staff). By definition, payroll processes adopted by these employers are able to manage the process of paying member contributions to a number of different schemes.

16. Equally, however, having only a small number of providers potentially reduces competition and the benefits (eg innovation) which may flow from that competition.

17. Any problem of micro-pots arising where there is a delay by the employee in notifying the employer of their lifetime provider should be simple to fix by an automatic obligation to transfer that pot to the relevant lifetime provider, with no requirement to obtain member consent or to provide a member opt-out. Alternatively, it would be possible (as with auto-enrolment contributions deducted during the opt-out window) for the employer to be permitted to delay transferring the deducted member contributions to the pension scheme until the employee has provided the details of their selected lifetime provider.

18. Use of a lifetime provider model may make it less likely that employers will negotiate (eg) discounted AMCs (subsidised by the employer), since they will not be dealing with a single provider.

19. Blanket adoption of a lifetime provider model as a solution to small pots would seem to exclude the continued use of "in-house" DC occupational schemes operated by employers for their / their group's employees. This would seem overly draconian. However, if use of the lifetime provider model were to be limited to cases of auto-enrolment, it would potentially reduce the efficacy of the solution, since many employers contractually enrol staff into their in-house arrangements, meaning that the employees in question are not automatically enrolled under the statutory regime.

I trust that these comments will be of assistance to the WPC and DWP as they consider the issue of consolidation further in due course.

Yours sincerely,

Francois Barker
Partner and Head of Pensions
For and on behalf of Eversheds Sutherland (International) LLP