Summary
• Offering financial incentives to transfer a pension or open a new plan are still relatively rare.
• Higher fees in retail schemes could outweigh the benefits of a short-term incentive.
• Trustees will need to do due diligence on any potential 'red flags'.
• Pot consolidation in future could open up more incentivisation.

Cash for pensions?

Maggie Williams explores the emerging trend of financial incentives being offered to transfer a pension to a retail offering and what this may mean for the industry

In the time it takes you to read this article, you could make over £300. My briefest of Google searches revealed a major high street bank willing to pay £175 for a transferred current account and an ISA provider offering a £150 gift card for a savings transfer. If you were to cast your search wider and explore financial incentives for moving your insurances, mobile, broadband and more, that figure would mount up significantly.

But what about pensions? Could offering financial incentives to open or transfer pots help engage people with saving for retirement, or encourage them to consolidate and streamline their pension arrangements over time? Alternatively, could it mean higher fees, scam risks and a potential worsening of the current small pots issues?

Workplace vs retail pensions

Offering incentives to move between retail financial products, such as bank accounts, is now an everyday practice – but moving funds from an occupational pension to a retail vehicle introduces more risks and complexities, says Scottish Widows senior corporate pensions specialist, Robert Cochran.

"Incentive offers often work in a retail environment where products are easily transferred and offerings roughly comparable. But exchanging a workplace pension scheme for a retail product is more challenging. Savers risk losing the protections they get within occupational pensions, such as the charge cap," he says. In some instances, there may be charges associated with making a transfer, which will further erode the attraction of the incentive.

He adds: "It's hard to check whether people are making a proper value judgement when they choose to transfer for a financial incentive. Moving a fund for a cash boost today could cost someone a lot of money in the future."

Cochran adds that much also depends on whether the incentive is being offered as a payment into a pension pot, or as cash in hand. "Putting incentive money into a pension pot could help to encourage saving and to engage someone with a pension. But if you are just being given cash-in-hand, that is harder to justify."

Pension provider and consolidator PensionBee operates a £100-per-time refer-a-friend scheme which, says PensionBee chief marketing officer, Jasper Martens, accounts for around 5 per cent of the provider's new business. "Friends joining PensionBee consolidate their previous pension savings into a PensionBee plan or can set up a completely new pension with us, if self-employed," he explains.

Each new member earns the referrer £100, which is added to their pension pot. "We believe that helps customers build up their savings over time," says Martens.

Incentives within workplace schemes

If incentives could entice savers away from workplace schemes, what can those schemes do in turn to keep them?

Arguably, the biggest incentives in a workplace scheme are contributions from the employer, says Cochran, and those can't be replicated in a retail environment. "When it comes to helping people to retire comfortably, offering matching structures or opting-up pension contributions are much better for employees."

One recent example is Jaguar Land Rover, which has introduced auto-escalation into its DC scheme. It moved employees in the company's 12 per cent lowest contribution tier (4 per cent from the employee and 8 per cent from the employer) into its 14 per cent mid-tier option (5 per cent from the employee and 9 per cent from the employer). When the new structure was introduced in March 2022, coinciding with the intensifying cost-of-living crisis, only around 50 employees of the 9,500 who were auto-escalated returned to the lower tier. This will provide a significant boost to employees' savings over time, far outstripping short-term incentives.

Administration frustration

While moving money between retail products might be relatively straightforward, the process of transferring a pension from a workplace scheme into a retail offering is potentially far more complex and time-consuming. "Transfer times can be lengthy, depending on the provider,"

says Cochran. "For schemes signed up to Origo's transfer service, for example, it should be fairly quick. But outside that, times can vary." Given that some financial incentives are time-limited, that could jeopardise the rewards on offer for savers.

Since November 2021, The Pensions Regulator has required trustees and scheme managers to carry out due diligence checks as part of any transfer request.

"From an administrative perspective, some transfer offers could be identified as a red flag scam risk," says KGC Associates director and Pensions Administration Standards Association chair, Kim Gubler. "Depending on the offer involved, trustees may want to get legal advice if the incentive seems excessive." She adds that if trustees are having to regularly explore offers and incentives, "this becomes expensive for the scheme and takes up a lot of time."

The current size and volume of incentives on offer is relatively small, but if offering incentives to savers to move from workplace schemes to retail arrangements became more commonplace, Gubler believes, "the legal profession might step in and The Pensions Regulator as well as the FCA may have a view. But at present, it's not that commonplace."

Another risk is the potential to confuse a legitimate financial incentive with a scam, especially as workplace pension savers are likely to be less familiar with retail offerings. "Offering an incentive could be an easy way to encourage people to fall for a scam," concedes Cochran. "But a lot of financial services products use incentives legitimately, so it's important to help people to remain aware."

"We are always reacting to yesterday's scams," says Gubler. "Criminals are always one step ahead and will bury very unclear information about charges and or terms and conditions deep within their website that is difficult to find. If someone is requesting a transfer from an occupational pension scheme to a suspect scheme, you would hope the flag regime would pick this up and that trustees would explore in more detail."

"But there are many newcomers into the pensions market, and some of them will be outside the UK, which means regulation and monitoring is much more difficult. That is why as an industry we sometimes have to be quite heavy-handed."

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Martens says that PensionBee has been careful to make sure that refer-a-friend meets its objectives and make the process as safe as possible. "We use very clear language in all our communications and each customer has a custom link to share when referring friends to PensionBee." He adds that there is also a limit to the number of people each customer can refer for the incentive.

A boon for small pots?

One potential benefit of offering a financial incentive to transfer could be to encourage savers to consolidate small pots and better engage with their retirement savings. A credible consolidator offering good value for money could help make pensions more manageable both for individual employees and eventually for schemes by reducing their volume of deferred pots.

Consolidation and transfers between workplace schemes are likely to become more significant in future as the DWP continues to explore the challenge of small pots, along with increased focus on value for money for savers. Potentially, that could drive more schemes to offer incentives in a bid to become the workplace pensions consolidator of choice for employees – within the boundaries of what TPR or the FCA consider to be acceptable.

At least one major workplace pension provider is already beginning to explore this territory. Standard Life is offering e-gift cards of up to £250 as an incentive to encourage savers to consolidate old pensions into a new plan.

Gubler believes the pensions industry could see wider use of incentives in future. "We could look further afield and see how incentives works outside our own industry, such as in bank account transfers – even if the conclusion is that pensions need a different approach. That's important both from a regulatory perspective and to identify where there are risks," says Gubler. "We need to look at how we can give people a good experience, keep them safe and encourage them to pay attention to their pensions in a way they feel comfortable with."

Small, short-term financial incentives might feel at odds with the large sums and long-term nature of pension savings. But as more DC savers approach retirement, the attraction of consolidating different pensions into one, easily manageable scheme could provide lucrative potential business for providers. Offering the types of incentives that we currently associate with banks or consumer savings accounts could become a more common way of inviting new business – but savers, trustees, regulators and schemes will all need to make sure the benefits continue to outweigh the risks.

Written by Maggie Williams, a freelance journalist