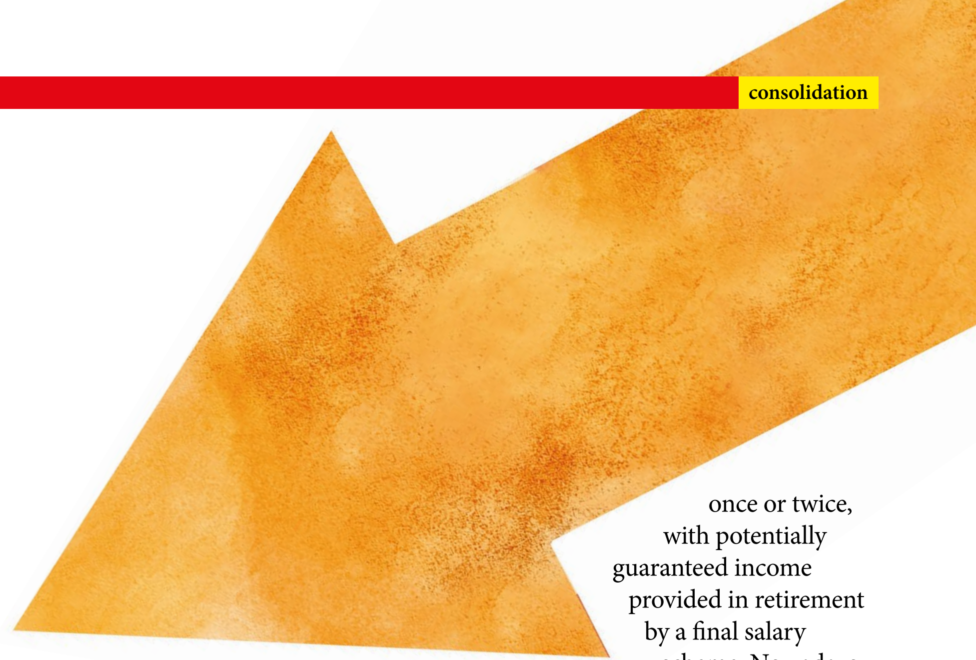
Summary
• The government's push for consolidating pension schemes will open doors for new, larger investments by schemes that previously didn't have the scale and capital needed to access them.
• However, there is disagreement among pensions experts over whether this could also potentially lead to less choice for savers and reduce competition between schemes.
• Alongside the push for consolidating pension schemes, the push for savers to consolidate pension pots will also have far-reaching consequences for the industry.

Consolidation of choices

While consolidating schemes could open doors for smaller schemes to access a wider range of large-scale investment opportunities, the reduced levels of competition between schemes could spell trouble for savers and the industry

As the government's push for pension schemes to consolidate progresses, the impact of this is yet to be fully felt by the industry.

The size of smaller pension schemes means they often struggle to raise the capital needed to invest in large-scale



investment opportunities, such as infrastructure investments, but the government's recent Mansion House reforms aim to change that.

The reforms focus on attracting investment to UK infrastructure and private equity opportunities, and spotlight the UK as a hub for entrepreneurs and senior level talent.

The government has turned its focus to the pensions industry as a source of capital for these investments, which can only be participated in by larger pension schemes with access to significant assets. This requires smaller schemes to be absorbed by larger ones.

Scottish Widows head of policy, Pete Glancy, says that if schemes have more investment opportunities available to them, they would be able to increase returns for beneficiaries in the longer term.

"If you're restricted to a very narrow range of asset classes, then you have to commit to them but if you can develop a broader array of assets, then you can take advantage of the timing of each one rising and falling, there's a diversification premium and there's an illiquidity premium," he notes.

Savers are also being encouraged to consolidate their pension pots, which would reduce administration costs within the industry. Killik & Co senior wealth planner, Arica Gourley, says that these benefits also extend to savers, who reduce the risk of forgetting about their pension pots by consolidating them into one fund.

Consolidating pots

Research from Interactive Investor shows that consolidating pension pots may have much more relevance for younger workers compared to those closer to retirement.

Younger workers already have significantly more pension pots than older workers, as one in five people aged 18-34 already have five or more pension pots, according to the research. By comparison, just one in 20 over 55s have five or more pension pots.

"While transferring could potentially lead to cheaper charges and more investment choices, there's no guarantee that it will result in a better outcome"

In total, the Mercia Group estimated one in four people have lost track of at least one pension in the UK, with almost three million pension pots unclaimed. It said the estimated combined value of these unclaimed pensions is £26.6 billion.

AJ Bell head of policy, Rachel Vahey, says that the launch of pensions dashboards could be "instrumental" in reducing this. She comments: "Armed with an overall view of their pension plans, including state pensions, savers are in a better position to make key decisions. They could combine pensions together, pay in more money or change their investment strategy, which could make a real difference in boosting the size of their pot."

Isio specialist pension consultant, Mike Randall, adds: "If you were starting work 40 years ago you might expect to have a job for life, or perhaps move once or twice, with potentially guaranteed income provided in retirement by a final salary scheme. Nowadays, people are so much more mobile having multiple different employers throughout their working life, which is resulting in the build-up of many more small pots with different providers."

He explains that while the introduction of automatic enrolment has ensured more workers are enrolled into their employer's pension arrangement, it has also led to many individuals having even less involvement in their pension savings at the point of enrolment. Therefore, they are more likely to be unaware of pension savings as they move employers throughout their working life.

Glancy also notes that when workers reach retirement, those with multiple pots will likely face more delays in accessing their savings compared to those with a consolidated pot: "It can be a two-day process to access your pensions savings, so if you have between 20 and 30 pots that's about two months' worth of work."

As a result, many young savers showed support for the government's proposed 'pot-for-life' scheme, which would require an employer to contribute to a pension arrangement chosen by the employee, rather than one selected by the employer, meaning that pension pots could move with employees as they change jobs during their working lives.

However, there are also situations in which workers can benefit from having multiple pension pots, such as

if any of the pension pots offer valuable guarantees or benefits upon retirement.

Senior Capital managing partner, Rudy Khaitan, says: "It could be wise to keep *[your pension pots]* separate to preserve the advantages of guaranteed annuity rates or defined benefit pension plans. Workers should also carefully examine the penalties for transferring pension plans, which might incur charges or penalties that outweigh any potential benefits.

"While transferring could potentially lead to cheaper charges and more investment choices, there's no guarantee that it will result in a better outcome."

Glancy also highlights the protections in place for workplace pensions, which savers risk losing if they consolidate their pots into a retail pension scheme: "Workplace pensions are subject to significant independent oversight after reforms were introduced with the introduction of auto-enrolment. Workplace pensions are required to disclose a large amount of data about how they are performing and the whole system is very transparent, but if you consolidate your pensions into a retail pension you lose that."

Consolidating schemes

Alongside the wider investment opportunities, the government's push for the consolidation of workplace pension schemes also aims to ensure all workplace pensions offer value for money to members. This includes the charges to savers, the investment returns beneficiaries receive, and the communications and administration services offered by schemes.

Vahey says that by consolidating pension schemes, the same minimum standard would be set for all schemes across most of these metrics, improving standards for beneficiaries.

"Savers might find themselves constrained to the investment options provided by consolidated schemes, limiting their ability to tailor investments to their preferences"

She also notes that it could lead to an increase in savers opting for a self-invested personal pension (SIPP) over their workplace pension: "Many people will choose to combine their pensions in a SIPP, which may offer them features they just can't get in a workplace pension, such as wider investment options, more choice and support on both investment decisions and how to access their pension money, and possibly even lower charges."

Khaitan also says that consolidation could lead to less choice for savers due to the reduced competition risk between schemes: "Savers might find themselves constrained to the investment options provided by consolidated schemes, limiting their ability to tailor investments to their preferences."

For the pensions industry itself, consolidation may lead to job losses as redundant roles are streamlined within merged companies, Khaitan adds.

"Smaller providers, who often offer niche services, could struggle to compete with larger entities, potentially diminishing the UK's diversity and innovation in its pension products and services. Additionally, increased regulatory scrutiny of consolidated firms could lead to higher compliance burdens and administrative costs," he says.

However, Gourley predicts that it was unlikely to lead to less choice and instead would encourage savers to take more interest in their pensions and where their money is invested.

Glancy argues that the pension industry's focus should remain on value for money: "It doesn't matter if we have five schemes or 500, we've got a new value for money framework, which is going to be fully consulted on soon, and the Chancellor said that will be live by 2027.

"If that is implemented poorly, it could have unintended consequences of everybody coalescing around a benchmark so it doesn't matter how many schemes there are because they will all be investing in the same way, with the same digital and service propositions and there won't be any choice."

Written by Beth Ure, a freelance journalist