Finding a DC small pots solution

To address the large number of deferred small DC pension pots, the government has proposed a framework for a multiple default consolidator model. This approach appears to have split industry opinion. We ask: Are you supportive of the government's proposed solution?

"The growing number of small, deferred pension pots has become an increasing concern for the industry, and we are pleased that the DWP has offered a solution that works in the interests of savers.

"Our main reason for support of this proposed solution is that it will hold consolidator schemes to a higher regulatory standard, which will only improve outcomes for savers.

"From an operational perspective, the core processes needed to make consolidators work are very similar to the processes needed to make pot-follows-member work. There is also an opportunity to learn from the dashboards project. While there's a lot of detail to work through, the consolidators proposal looks achievable and no harder than anything else that was on the table. With the policy direction now set, it's now up to the industry to make this work."
People's Partnership director of policy, Phil Brown

"The government is focusing on small pots only here because automatically transferring someone's pension without getting their permission first comes with real risks. It is possible, for example, that someone might have their retirement pot moved to a scheme with higher charges or worse investment performance, or both. While it is logical to look at ways to increase scale and efficiency in the pension system, protecting the consumer must be the number one priority.

"By restricting automatic transfers to sub-£1,000 deferred pensions, the DWP is hoping to mitigate this risk, as the impact of charge differentials in pounds and pence terms should be relatively small.

"However, in reality this complex solution will likely take a long time to build and savers will still lose track of where their retirement pots end up. Instead, we need a solution that breaks through this apathy and reunites people with their pensions. The government should focus on launching pensions dashboards to enable people to locate all their pensions, including small pots, and empowering them to consolidate their retirement pots quickly and simply."
AJ Bell head of retirement policy, Tom Selby

"We are supportive of the idea of default consolidators with a central clearing house that will support the transfer of small pots to the appropriate place. We do however feel that a framework for authorisation is required to support this system and ensure members do not end up in poorer value for money arrangements. The detail of this framework is not clear at present. In addition, a robust system of safeguards is required for providers to ensure that the rules and processes are clear and do not leave them open to challenge. Finally, when you put this approach through the lens of DE&I, there will be a need for some form of filtering mechanism, such

that there are no detrimental unintended consequences on minority groups."
Hymans Robertson head of master trust trustee consulting, Alison Leslie

"We believe this model is fraught with complexity and cost and believe more consideration should be given to other solutions including 'pot follows member'.

"A major barrier to any automated small pots solution is the total scheme cost of making pension transfers, which varies by scheme between £30 and £80, as indicated in the consultation paper. Until these costs are eliminated, and truly automated, with no human intervention, and communications fully digitalised, it's hard to see any small pots solution being achievable or cost effective. We urge the government and regulators to work with the pension industry to investigate ways to reduce transfer costs before forging ahead with any small pots solution.

"Small pots consolidators will have to demonstrate the highest value for the member under the proposed value for member framework. The framework, once in place, will naturally drive consolidation into larger schemes providing better value for money. Surely it makes sense for scheme consolidation to happen before attempting consolidation of small pots at individual level. The concept of attempting individual and scheme consolidation at the same time is highly problematic. It makes no sense for a scheme to be a small pot consolidator if it is then, or becomes, at risk of being wound-up or consolidated if it offers poor value.

"Rather than focusing on building a small pots solution at the same time as other government pension initiatives, we believe the government should prioritise the value for money framework and getting dashboards up and running."
Aegon head of pensions, Kate Smith

"We welcome the progress being made on small pots with consolidation likely to be in the best interest of the most people. The decision that members could choose their designated consolidator is helpful as this will allow those who work through a number of short-term employment contracts to build up a significant pot in one place.

"As the pensions market matures there will continue to be a need for defaults, for members who have not made active pension choices. These defaults should not come at the expense of making it difficult to engage with your pension, and so we are calling for the parallel development of lifetime pensions. A lifetime pot would allow people to put all their employer contributions, including those from their employer, into their pension pot of choice.

"Given the multiple consolidator approach, we agree with the proposal to create a central clearing house to act as a central point informing pension schemes where to transfer an eligible deferred pot. The cost of developing and maintaining this clearing house, and how it is funded, should be explicitly addressed from the start. This will address the risk that a theoretically perfect solution is created only for it to be later established that the costs outweigh the benefit."
Hargreaves Lansdown head of regulatory development and policy, Phil Warner

"Our first preference would have been for a 'pot-follows-member' approach, whereby pensions under a certain size automatically transfer when people change jobs.

"It's an easy concept for consumers to understand and, in a charge cap environment, concerns about the value for money offered by receiving schemes are lessened. There is also the extra convenience with the pot-follows-member approach that the legislation already exists.

"*[The default consolidator model]* also risks further complicating the pensions system for savers due to the potentially cumbersome nature of the process and complex terminology. This option requires the creation of a clearing house or central registry, the cost of which will be substantial and could outweigh the potential benefits of the solution."
Standard Life managing director for workplace, Gail Izat

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