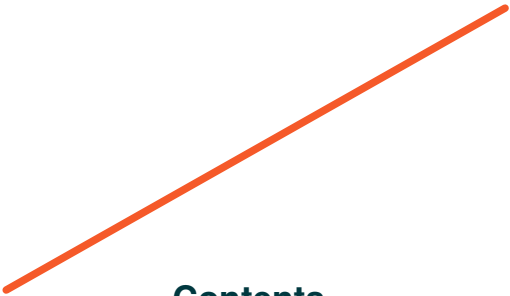




Consultation Response

Ending the proliferation of small pension pots
September 2023



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Executive Summary

We are pleased to be able to provide our thoughts on the consultation to end the proliferation of small pots.

We are, on the whole, supportive of the measures to ensure members pots are consolidated where appropriate as a smaller number larger pots are clearly more likely to provide better outcomes for members than a large number of smaller pots.

Indeed in our previous consultation response we supported the call for multiple default consolidators.

While there may be some relatively easy wins to consolidate pots, we believe that the government should ensure that pressure is maintained on providers to take these responsibilities seriously to ensure good outcomes for members. They should consider whether attitudes amongst providers could be challenged and indeed form part of quality tests under consumer duty and VFM.

We also are mindful of unintended consequences of the technical aspects of pensions and tax law. A working group should be established to unearth as many of these as possible and provide requisite carve outs to avoid member detriment. HMRC and DWP should jointly chair these meetings.



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Responses

Question 1: Do you agree with this proposal or do you believe a central registry would be more effective approach to support the consolidation of deferred small pots, if so how would you design a central registry?

We agree that a central clearing house is the preferred option. Member protection needs to be factored in as any method (with or without a VFM framework) that means slick advertising could result in bad outcomes if members are encouraged to consolidate in poor value arrangements. There could even be a risk of scammers using the confusion created by the general project of consolidation. This is a key risk with the central registry option. We also have concerns that special dispensation would be required to allow cold calling from consolidators and the rule of thumb that any cold calling is not in the individuals best interest should not be weakened with exemptions like this.

Funding of the clearing house needs to be shared across the industry.

Clearing house role needs to be clear as a means to connect members and schemes. It will be crucial that they do not provide advice and are only to support as an independent conduit.

Question 2: Which, of the options we have set out, do you think is the best approach to allocate a member a default consolidator in cases where a member does not make an active decision? Are there alternatives?

Option A: • Allocate all small pots between the providers who meet the criteria to be a consolidator at a level proportionate to their market share. The intention here would be to mitigate concerns of further promotion of an oligopoly amongst the largest providers by all schemes growing, in terms of small pots transferred in, at their current rate.

Option B: • Given the likelihood that a member will have a deferred pot already with a consolidator scheme, this scheme would be allocated as the members consolidator scheme. In cases where a member has pots with multiple schemes that are authorised consolidators their deferred pots could be allocated to the consolidator scheme that holds their largest deferred pot.

We agree that many members will have a pension in a consolidator scheme so Option B should be the default. However, we do think Option A could be held as a back stop method should B not apply where funds are not held with a consolidator.

We would be sympathetic, perhaps where there's a conflict with pot sizes that the most recent scheme could also be the consolidator as they are most likely to have a relationship with the member.

We do have some concerns about the process to ensure the "wake-up" to the member does not result in them making decisions to their detriment or becoming frustrated with a complex process. We would like to see the process:

- Be simple for the member to follow the default either by confirmation or inaction and suitable reassurance this will be in their long term best interests.

- Have a simple form, not multiple forms from multiple providers. A standard communication and discharge needs to be agreed, even if the member makes a separate choice of destination provider. We run the risk of member frustration.
- Have the necessary risk warnings should they go to an unauthorised scheme where these small pots could be swallowed up by fees over time.

Question 3: Do you agree that there is a need for an authorisation regime for a scheme to act as a consolidator? If so, what essential conditions do you think should form part of the authorisation criteria?

Yes. We think the following areas are essential.

- These funds need to be consolidated in a low cost VFM compliant fund.
- Welcome packs for members that have been consolidated need to be clear and simple for members to understand what pensions have now been consolidated and how they engage and interact with those pensions.

Question 4: Do you agree with setting the initial maximum limit for consolidation at £1,000, with a regular statutory review?

Yes but with plans, if this is successful to move up the scale over time.

Question 5: Do you agree with this proposal not to mandate schemes to undertake same scheme consolidation at this current time?

It is disappointing that the complexity of legacy pension offerings means that this option, which appears the most obvious way of resolving many of the issues that cause a proliferation of small pots, is not available. We are pleased that the government clearly agrees that schemes should be consolidating same scheme pensions and that this will be a requirement should a provider wish to be a consolidator. We suggest that the government maintains the pressure on this point and keep activity under review over the coming years. Whether it should become part of any consumer duty or VFM framework as a mark of a quality and authorised scheme.

Question 6: As a whole, do you agree with the framework set out above for a default consolidator approach? Are there any areas that you think have not been considered, that need to form part of this framework?

Question 7: Do you have any comments on the positive or negative impacts of a default consolidator approach on any protected groups, and how any negative effects could be mitigated?

We've provided our thoughts for questions 6 and 7 together here.

There are some areas of historical practice and legislation that could cause headaches and they need to be addressed.

- We see no mention of the NMPA issues when transferring members. This is a minefield and could result in member detriment and complication. Has the government thought about this?

- Target retirement ages – how can these be harmonised where choices/default have diverged. Which option will be the default? This will be complex and members will need to understand decisions they made/defaulted to and how these will be treated.
- Should schemes be mandated to trace members and check for deceased members. This is not happening across the board and will help distribute funds to dependants who could be in need.
- Has there been any consideration of an upper age? In principle we don't think there should be but there should be separate considerations around how elderly and vulnerable people are communicated with.
- What protections are in place to stop members from transferring to their detriment? Will the clearing house have powers to step in if there is a risk of scams? Will the scam rules apply to all transfers under member choice?
- Pension tax rules have a number of hidden traps concerning tax-free cash entitlements and these should be considered with carve-outs where consolidation occurs to ensure members are not worse off.
- We have concerns about With Profits and GAR funds and are pleased to see these appear to be exempt. The government should ensure they are clear with their definition of pots that are in and out of scope. The emphasis on auto-enrolment related may be a miss-step and should cover all pots.

The government should work with the industry to identify these, and no doubt other, concerns and provide the legislative comfort that unintended negative consequences on members should not and cannot occur. Where there is doubt providers should be able to act in the best interests of members.

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