Lifetime Provider Model workshop
Event write up

Overview

On January 15th 2024, the Pensions Policy Institute (PPI) facilitated a policy workshop, kindly hosted by the Association of British Insurers, to discuss proposed policy reforms relating to the Lifetime Provider Model. The policy workshop was chaired by **Chris Curry, PPI Director** and was attended by 50 people representing different stakeholder groups including members, industry, pension providers, and employers. A brief presentation was given by **Daniela Silcock, Senior Policy Researcher** and **Shantel Okello, PPI Policy Researcher**. Another short presentation was given by a representative of the **Department of Work and Pensions**, and this, alongside the panel discussion and workshop sessions were held under the Chatham House Rule. The attendees were assigned stakeholder groups: Members, Employers, Providers and Wider Industry. Each group was asked to consider the benefits and challenges of a Lifetime Provider Model for their stakeholder group as well as what policy design and infrastructure elements would be required for the policy to best serve the needs of their group.

Following this workshop, the PPI will issue a short report on the implications of the policy model for key stakeholders. This report will be publicly available in Late February, early March 2024.

Opening Presentations

PPI Presentation

The presentation gave a brief history as to how today's proposed Lifetime Provider Model was reached, starting from 2010, when issues regarding the proliferation of small, deferred pots first gained awareness, which were expected to worsen with the implementation of Automatic Enrolment. The government's response included initial plans for a "pot follows member" system, aiming to automatically transfer small pension pots. However, this initiative was delayed in 2014, and the government's priority shifted towards the Automatic Enrolment rollout. In 2020, the PPI released a report emphasizing the challenges associated with small, deferred member pots. This led to a government inquiry supported by the Small Pots Working Group. The working group identified the need for modernizing administrative processes across the Automatic Enrolment workplace pensions market for large-scale, cost-effective consolidation.

A multiple default consolidator model was proposed by government as an alternative to the previous "pot follows member", which involves eligible deferred small pots automatically transferring to a consolidator scheme, with a clearing house facilitating the process. In addition to consolidators, the Government is also considering a lifetime provider model to prevent multiple pots building up in the future.

The government aims to enhance member engagement through lifetime provider and default consolidator models supported by pensions dashboards. While reducing small, deferred pots could benefit members; potential cost savings may be offset by increased administrative and marketing expenses. Concerns arise about individuals remaining in suboptimal schemes under the Lifetime Provider Model, and the effectiveness of the Value for Money framework is yet to be revealed. Employers may face increased burdens, including higher administration, payroll and communication costs and resource-intensive in-house provision. Positively, the policy could enhance communication, giving employers an opportunity for talking to employees about pension choices and promoting financial health among employees. Unanswered questions involve who would be responsible for ensuring contributions go to the right place, and applicability to different employer and scheme types.

Providers and industry could see a competitive environment, and there is some potential for better member understanding and engagement, however implementation will be expensive and time-consuming. The policy may require the support of unified data standards and unique identification numbers.

The presentation concluded by emphasising that although the lifetime provider and default consolidation models could reduce the number of deferred pots leading to cost savings and efficiency, it could also result in the opposite. If implementation is not taken slowly and carefully, then increased costs, market issues and technical issues could arise, alongside a heightened sense of confusion from members.

1. Several key themes emerged from the workshop discussions

The below themes emerged during the workshop discussions. These reflect the participant's views and do not necessarily reflect the views of the PPI.

1.1 Savings and Efficiency

Employers could potentially save costs in the long run if they are relieved from the responsibility of selecting providers or schemes, though they are likely to need to retain a default scheme for new members. **Providers** could also benefit from a more efficient system if the number of small and deferred pots are reduced. **Industry** could benefit from automation, supported by data standards and robust identification data, if these are in place before the policy is implemented.

1.2 Administrative Burden

Employers and industry will face potential additional administrative burdens, including adapting payroll and HR infrastructure, and calculating tax and contributions to several scheme types. Many were concerned that employers needing to pay contributions towards both Relief at Source and Net Pay schemes may be administratively difficult. The design of the clearing house and its functions (e.g., scope and operations) will be crucial in determining the level of administrative complexity. Industry stakeholders believe a period for agreement on design is necessary, as well as a clear timetable which addresses how policy changes such as Value for Money and consolidation will be sequenced. There is a concern from all stakeholder groups regarding who would pay for implementation and restructuring costs. Would these costs end up being borne by members? If employers could make all their pension contributions via one single monthly payment, with a third party ensuring the contributions go to the correct place, the policy will be more manageable for them.

1.3 Engagement and Ownership

In an ideal world, **members** could achieve heightened engagement, convenience, and ownership under the lifetime provider model as a result of a simplified system with a single log-in and reduced complexity. Self-employed people may have better provision as they will have access to schemes they had prior to self-employment.

1.4 Lack of Clarity

Providers and Industry both express concerns about the lack of clarity in the design of the Lifetime Provider Model. The ambiguity surrounding the policy's objectives and its potential consequences necessitates a well-defined and transparent policy framework. Strong legislation will be required to ensure all parties know what is expected of them and that there is monitoring and enforcement.

1.5 Data Standards and Infrastructure

All Stakeholders stress the necessity of unified data standards, a robust IT infrastructure and some form of national identity number to support the implementation of the Lifetime Provider Model and avoid unnecessary costs, complexity and mistakes. A central database is deemed essential, though there were questions about who would manage it (government vs. private sector).

1.6 Consumer Protection

Members and Providers emphasise the need for robust consumer protection measures, especially in the context of fraud prevention, product design, and adherence to Value for Money frameworks. The policy could open the door to more significant impact from scams, leaving members more vulnerable. However, a strictly regulated and small group of authorised lifetime providers could help reduce the likelihood of scammers targeting those in these schemes. Providers will need to charge individuals the same prices regardless of pot size or size of employer.

1.7 Education and Communication

Members would benefit from school-based education on pensions to prepare them for the complexity of the system, and **employers** see potential benefits in enhanced member understanding as a result of the new models that can guide pension choices. Clear communication and educational initiatives are deemed crucial for the success of the policy.

1.8 DB and CDC schemes

There was concern from all stakeholders that a Lifetime Provider Model would not be compatible with the needs of DB and CDC schemes, for example, would those joining employers offering DB and CDC schemes be less likely to join these schemes? These schemes may need to be excluded from the policy in order to maintain their integrity.

Further evidence and information would be helpful, in order to understand the potential impact of the policy including, but not limited to:

1. What might be the cumulative impact of current policy proposals? What might the market look like when the policy is introduced?
2. How might providers, members and employer respond to the policy?
3. What will the policy and infrastructure look like?
4. Who will be responsible for, and fund the policy design, implementation, and monitoring?
5. What support will members need?
6. Will the anticipated costs and resourcing required be commensurate with the likely impact?

The below table summarises the stakeholder responses from the workshop.

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	Potential Benefits	Potential Challenges	Necessary Design Elements	Necessary Infrastructure Elements
Members	• Fewer overall pots, and fewer small or deferred pots • Self-employed people may have better provision through access to schemes they had prior to self-employment • Easier, simpler and more convenient for those wishing to interact with their pension – access through a single source • Members may feel greater ownership over a larger, single, lifetime pot, especially if they actively choose the provider • The potential for reduced jargon, for example, my Super or my KiwiSaver rather than multiple pots	• Operational delivery through multiple agencies and involving community outreach will be required to ensure people understand how the system is changing, especially for older and vulnerable people • With less individual pot diversification, cracking down on scams will become more important, to avoid people losing their entire savings through transferring one pot • Pricing dynamics are likely to change as schemes will offer retail prices instead of institutionalised prices (aimed at employee groups) • The nature of competition may change as schemes will market to individuals as well as employers. As individuals may be less engaged than employers, some competitivity could reduce under Lifetime Provider Model • Members are unlikely to make active choices	• More consumer protection against fraud will be needed, and the Value for Money framework should be established beforehand. A member focused Value for Money could help drive market competition • A single regulator will make the system easier to manage, enforce and monitor • Strong legislation will be required to ensure all parties know what is expected of them and that there is monitoring and enforcement • Data protection and data standards need to be in place before the policies are introduced otherwise the processes will become too complex and too many mistakes will be made • Managing consumer duty obligations may be more difficult as members will become a more disparate group • Members should receive help on how to pick and review their pension provider. League tables/ an independent "money supermarket" type approach could assist with this • New policy reforms will need to apply to all pension products, not just trust-based schemes • Will there be a trusted, accessible and independent source for guidance and advice? • Providers will need to charge individuals the same prices regardless of pot size or size of employer	• Both data protection and necessary permissions for data sharing will need to be in place at the start • Responsibility lines and liability for mistakes will need to be clear • Benchmarking and assessments will need to be available to employers, members and the Government • There will need to be safety nets in case there are non-commercially viable aspects of the policy, and some providers fail • There will need to be an aligned tax framework in place, so people do not stay in schemes with less advantageous tax regimes • Strong protection against poor product design will be essential • There needs to be proper supports and Value for Money measures in place for both accumulation and decumulation • An independent retirement commissioner who can feedback on the system would be very helpful

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	Potential Benefits	Potential Challenges	Necessary Design Elements	Necessary Infrastructure Elements
Employers	• Could be a saving if employers do not need to choose providers/schemes, though they are likely to need to maintain a default offering • Employees could be more engaged	• Potential for a time consuming and costly transition from existing HR and payroll models • It will be harder to accurately assess contribution eligibility if money is going to different providers • Payroll providers may charge employers more as a result of having to redevelop their systems • Could reduce the influence of employer and complicate communications • Some employers may increase their focus/resourcing on communications in order to market schemes, jeopardising other areas of the business • Will employers contribute less? Should we raise minimum contribution levels to prevent this?	• The policy needs to support employers to make all their pension contributions via one single monthly payment, with a third party (e.g., the clearing house) ensuring the contributions go to the correct place, rather than requiring employers to make separate payments to multiple schemes • The clearing house needs to maintain responsibility for monitoring that contributions go to the correct place • There must be a shortlist of providers. If any provider can be a Lifetime Provider, for example, SIPPs, who will check if they are legitimate? • Defined Benefit schemes should be excluded. Collective Defined Contribution schemes also need consideration as their model is designed around setting a level of contributions from employers as well as employees and employees who move to new employers may not have access to the same contribution level they had previously • Pension contribution taxation needs to be simplified, whether it is relief at source or net pay, it must be clear so that employers do not have to make contributions to several schemes with different tax regimes	• The quality of individual identifiers needs to be resolved otherwise pension contributions may end up mismatched • HMRC needs to be involved in the matching process to ensure consistency and oversight • The pensions dashboards and clearing house will need to be delivered prior to setting up a Lifetime provider in order to ensure the system is supported • There needs to be a single responsible party solving developing issues and designing and implementing regulation in order to ensure consistency and oversight

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	Potential Benefits	Potential Challenges	Necessary Design Elements	Necessary Infrastructure Elements
Providers	• There will be a reduction in small pots that are difficult and costly to maintain • A more competitive environment could lead to more innovation • The creation of a special carve out for Defined Benefit could actually benefit the Defined Benefit sector by ensuring membership is retained • Savers remaining in schemes could lead to some other economies of scale • If only a limited number of authorised providers are allowed to be Lifetime Providers, the prevalence of scams could be reduced	• The policy could kill Defined Benefit schemes, as the covenant between employers and schemes that Defined Benefit operates under would be more tenuous (assuming Defined Benefit schemes are included in the policy). Public sector (and private sector) Defined Benefit may require a "carve out" • A similar carve out would be needed for Collective Defined Contribution, otherwise contribution rates may be incompatible for someone with Defined Benefit/Collective Defined Contribution moving to an employer with minimum Defined Contribution contribution rates • Collective Defined Contribution is currently predicated on getting a steady flow of new members in the future, but a Lifetime Provider Model could stem this • Some providers may offer some services specifically aimed at micro employers that would not really be feasible under a Lifetime Provider Model • There is a lack of clarity over what the Lifetime Provider Model is actually solving. Could there potentially be less "traumatic" solutions to what the Lifetime Provider Model is trying to solve?	• Policymakers would need to consider how Value for Money assessments would be made under a Lifetime Provider Model • The Lifetime Provider Model policy would benefit from member forums to allow providers to understand member needs and concerns • Mechanisms for keeping data up to date in a continuous way would be required • The end, or dilution, of workplace-associated schemes may require different regulators • There is some uncertainty surrounding what would happen to single employer schemes • The distinction between Automatic Enrolment and the Lifetime Provider Model would need to be made clear to members • A pot for life should only be available from workplace providers, and switching between these needs to be easy	• Significant IT infrastructure would need to exist, and it is not clear who would manage this, possibly HMRC • Some kind of central database, similar to Australia, would be needed • The dashboard may become redundant if the Lifetime Provider Model came to fruition • In an environment where members decided on their provider, there would need to be more financial education, signposting, and some kind of objective performance data that allows consumers to compare • Good data quality will be crucial and will need to be specified who is responsible as there will be increased difficulty for providers in that they would have a lot of money pushed in from different employers – this will bring complexity in terms of verifying which member it belongs to • Government will need to commit to this policy in the long term, as introducing members to the concept of a pot for life and then changing the policy again would create confusion • There are various different roles that a clearing house could fulfil that also remain to be specified, a clearing house would not necessarily need to exist straight away for this policy to be implemented

	Potential Benefits	Potential Challenges	Necessary Design Elements	Necessary Infrastructure Elements
Providers continued		• There may be a dynamic between workplace and retail providers where some providers aim to attract workplaces, and then others try to poach the most lucrative individual members from those workplaces • Currently, providers have a one-to-one relationship with employers, but under this policy there would be a one-to-many relationship that would be significantly more complex in terms of verifying the legitimacy of money received • Payroll and tax calculations will become more complex, given that some schemes would require net pay and others, relief at source • Architecture costs create Value for Money issues for savers, employer, funds, and taxpayers (though this depends on who is billed for these policy changes) • A consolidator only model may be uneconomic for providers, it would help for consolidators to also be Lifetime Providers		• Dashboard, unique identification numbers, unified data standards, default consolidator system and Value for Money would need to come first • Controls on marketing ‘abuses’ would be needed, such as fraud protections and a potential ban on inducements

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	Potential Benefits	Potential Challenges	Necessary Design Elements	Necessary Infrastructure Elements
Industry	• If designed and implemented correctly, the system could become simpler • There is the potential for increased member understanding and engagement • If data is robustly harmonised and standardised on a national scale, transfers and contributions could become more automated, reducing costs and resourcing • For many savers there will be one access point for their pension through their single provider	• Would employer incentives decrease? Would employers still offer higher/matching contribution rates, or will they simply offer the Automatic Enrolment minimum for a Lifetime Provider Scheme? • The implementation work required is significant • There is no clarity yet on the design of the Lifetime Provider Model, which we need to know to be able to fully understand the impact • There will be an additional admin burden on employers, depending on the model design (e.g., scope and function of clearing house)	• Delivery experts will need to work on the details to make sure the design is ready for implementation • Quality standards need to be set at the right level, achievable and measurable – as well as appropriate for what members need • A clear timetable is needed and there is also a question of sequencing, which problem(s) need to be fixed first, i.e., Value for Money and small pots consolidation • We need to take stock after other policy initiatives have been implemented to determine if a Lifetime Provider Model is still needed • A period of time to get agreement on design will be needed in order to allow time for innovation in the retirement market • We will need clarity on how the Lifetime Provider Model follows through to decumulation, will there be guidance around life styling, retirement options, etc.? • Adequacy of savings will need to be considered – will employers still contribute in the same amounts as before? • There needs to be consistency between ownership of the policy and delivery responsibility • Scheme marketing should be at people who do not understand pensions, e.g., current account marketing for student accounts that stick for life	• There will need to be a robust identification marker for individuals to ensure funds go to the right place/person • Unified data standards are a necessity • Clearing house should do the matching, but what entity will run the clearing house? Will it be the Government or the private sector? • Some clarity regarding what is meant by a clearing house will also be needed as there are different functions it may need to undertake depending on the model • Private sector delivery experts should work in tandem with policy experts • HMRC data standards should be used as they are the cornerstone of employer interaction as opposed to data standards from the dashboard • How will this integrate with payroll? Perhaps a BACS for pensions system?