PENSIONS POLICY INSTITUTE
PPI

Looking to the future: greater member security and rebalancing risk: a call for evidence

Response from the Pensions Policy Institute, January 2024

1. This is the Pensions Policy Institute's (PPI) response to the DWP's call for evidence on the greater member security and rebalancing risk, specifically in reference to the default consolidator and lifetime provider models for pensions.

2. The PPI promotes the study of pensions and other provision for retirement and old age. The PPI is unique as it is independent (no political bias or vested interest), focused and expert in the field, and takes a long-term perspective across all elements of the pensions system. The PPI exists to contribute facts, analysis and commentary to help all commentators and decision-makers to take informed policy decisions on pensions and retirement provision.

3. This submission does not address all consultation paper questions. Rather, the response takes the form of the findings of the write up from a workshop PPI held with key stakeholders (kindly hosted by the Association of British Insurers) to explore the potential benefits and challenges of these proposals for members, employers, providers and industry, alongside which design elements and infrastructure would be necessary to support the policies.

4. We would be happy to discuss the contents further if that would help the consultation. We will be following up with a short report, to be published towards the end of February/beginning March, though we will provide the DWP with a draft copy in mid-February.

5. The PPI has previously written several reports which are relevant to this call for evidence:
   - Policy options for tackling the growing number of deferred members with small pots (2020)

https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2020/2020-07-23-policy-options-for-tackling-the-growing-number-of-deferred-members-with-small-pots/

- How have other countries dealt with small, deferred member pension pots? (2021) https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2021/2021-01-12-how-have-other-countries-dealt-with-small-deferred-member-pension-pots/

1. Several key themes emerged from the workshop discussions

The below themes emerged during the workshop discussions. Please see attached the event write up for further detail.

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 employers 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?

For further information or if you have any additional questions please contact:

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