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How could a Lifetime Provider Model impact members, employers, and industry?

An INDEPENDENT Report by The Pensions Policy Institute

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Published by the Pensions Policy Institute

www.pensionspolicyinstitute.org.uk

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About this report

In 2023 the UK Government issued a call for evidence on instituting a Multiple Default Consolidator Model and on the consideration of a potential Lifetime Provider Model, to deal with previous, and prevent future development of small, deferred DC pension pots.

PPI has written previously on this and relevant topics, including:

- **Briefing Note Number 134: Lost Pensions 2022: What's the scale and impact? (2022)**[1]
- **What is the impact on member outcomes of different non-capped charging structures? (2021)**[2]
- **How have other countries dealt with small, deferred member pension pots? (2021)**[3]
- **Financial sustainability of master trust pension schemes (2020)**[4]
- **Policy options for tackling the growing number of deferred members with small pots (2020)**[5]

In addition, to support this report and the PPI's response to the call for evidence, 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 attended by 50 people representing different stakeholder groups including members, industry, pension providers, and employers. The PPI is grateful to the workshop attendees for helping to develop the themes in this report.

This report sets out the potential impact on key stakeholders of implementing a Lifetime Provider Model. It does not weigh the merits of the policy, nor conduct a cost/benefit analysis. Rather, this report sets out what all key stakeholders may need to consider if this policy were to be implemented and sets out the implications and trade-offs of different options, alongside three international case studies on Australia, Denmark and Mexico.

Chapter One explores the background discussions and policy developments which led up to the Government's 2023 proposal of a Lifetime Provider Policy Model for pensions.

Chapter Two considers the impact of a Lifetime Provider Model on the wider pensions landscape in relation to other scheme types, the range of agencies involved in pension provision, and wider market pressures.

Chapter Three considers how a Lifetime Provider Policy Model could fit in with other current policy agendas.

Chapter Four explores what infrastructure may need to be in place in order to support efficient delivery of a Lifetime Provider Model.

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1 https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2022/2022-10-27-briefing-note-134-lost-pensions-2022-what-s-the-scale-and-impact/

2 https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2021/2021-11-24-what-is-the-impact-on-member-outcomes-of-different-non-capped-charging-structures/

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

4 https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2020/2020-08-27-financial-sustainability-of-master-trust-pension-schemes/

5 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/

Executive Summary

In 2023 the Government announced plans to explore options for multiple default consolidator vehicles, to manage small, deferred member DC pension pots, and proposed a Lifetime Provider Model, to prevent small deferred pots building up in the future. This report considers the potential impact of the Lifetime Provider Model on key stakeholders and explores policy implications for the wider market, Lifetime Provider policy infrastructure and how this policy could be sequenced alongside other policy agendas.

The introduction of a Lifetime Provider Model would require adaptation by schemes and the services which support them

There are a multitude of scheme types in the UK with different characteristics, and a large number of agencies involved in the delivery of pensions guidance, advice and services to individuals, employers and schemes. This policy would represent an overhaul of service provision from schemes, employers and the agencies which support them, the cost of which is likely to be significant.

A few factors must be taken into account:

- Care must be taken to ensure that market adaptations do not result in members being overcharged, and that any increase in member fees is commensurate with service improvements.
- Market complications could arise, in the form of providers paying large amounts towards marketing, increasing member costs, and larger schemes poaching more profitable members.
- An authorization scheme for Lifetime Providers could go some way towards reducing the impact of marketing problems on members.
- There is currently a pension scheme consolidation agenda underway, which means that adoption may be easier in future, when there are fewer, larger schemes.

Delaying implementation, or delaying the decision about introducing the Lifetime Provider Model until other policy agendas are completed is likely to increase the efficiency of a Lifetime Provider Model

A national, purpose-designed data standard will be necessary to ensure proper functioning of a Lifetime Provider Model. In order for a Lifetime Provider Model to achieve cost savings and better services for members, difficulties in matching will need to be addressed, potentially through the introduction of a unique identity number, or through strengthening other matching processes. A robust IT infrastructure will also help ensure the efficiency of the Model.

There are several pension policy developments taking place at the moment which could help with these:

- Pensions dashboards
- Value for Money
- Consolidator vehicles
- Clearing house

Pensions dashboards, rolling out over the next few years, require schemes to submit standardised data and are developing matching capabilities (for members and their pots). The Value for Money

(VFM) agenda will require a level of data streamlining and standardisation that could potentially also assist with data standard developments. Alongside these, the pot consolidation and Clearing House proposals in the Government's call for evidence are likely to involve the construction of significant infrastructure, first, the data and IT framework for consolidation of small pots, second, the construction of a Clearing House designed to support communication and data sharing. These will also need to be supported by robust member-to-pot matching facilities.

While these other policies are unlikely to result fully in the development of the infrastructure needed to support a Lifetime Provider Model, they will all help to some degree, as will the PPI's Pensions Data Project. It may be necessary to develop and roll out these other policies with sufficient time for iterations, prior to considering the introduction of a Lifetime Provider Model and the development of its necessary support systems.

In addition to data standards, matching facilities and IT infrastructure, support for members and containment of costs and member fees will be critical

There are several ways in which member fees could be impacted, including: through increased provider marketing costs, increased costs for members of schemes who have lost higher valued pots to other providers, costs of policy infrastructure development and, the potential for lower wage increases if employers have to pay more for their advice, payroll or accountancy services. If members end up paying increased costs, this could undo some of the potential benefits of the policy, though they could still, in theory, gain overall if increased costs are outweighed by increased returns, generated through more sophisticated investment strategies, fuelled by higher scheme asset values. Cost increases might be mitigated by future levels of scale if schemes become fewer and larger in size. Alternatively, if schemes with higher marketing budgets attract higher value members from schemes operating at lower cost, both asset values and the potential for more sophisticated investment strategies could be jeopardised. There are many unknowns and moving parts. It will be necessary to conduct cost analyses of all of the different policy strands and effects and to have an understanding about how these will be funded long term, in order to calculate the potential impact on members. It would be helpful to conduct this analysis prior to taking the decision to pursue a Lifetime Provider Model.

A cost/benefit analysis of the policy is outside the scope of this report.

Member engagement could help improve outcomes

While the VFM policy agenda is expected to bring about scheme consolidation and ensure that schemes all perform above a minimum high standard, member engagement could still improve member outcomes if, for example, members who are actively engaged to choose a Lifetime Provider which offers higher net returns or offers investment strategies and/or other options which suit their personal needs and characteristics, though the metrics required to make these active choices would need to be available. Additionally, if VFM takes longer than expected to achieve desired results, and the Lifetime Provider Model goes ahead, active scheme choice will have a more significant impact on member outcomes as those who do not make active choices may be stuck in poorly performing or higher charging schemes. While stakeholders have voiced concerns about the potential levels of member choice, the Australian example, which has allowed member choice since 2005, indicates that given choice, member engagement increases over time, with 43% of Australian Super "workplace" pension members contributing to a scheme other than their employer's default over the last five years (though some of these may have defaulted into a previous scheme when moving to a new employer). However, it is unlikely that a large proportion of members will engage in the future without significant landscape change; engagement levels in the UK are currently very low.

A properly functioning VFM system could eventually help provide the metrics needed for member choice (though this is not part of the original design), but safety nets will also be required to ensure that members have access to advice and guidance and that those who do not actively choose, do not remain in poorly performing schemes, or smaller schemes which charge members with lower pots more.

Chapter One: How did we arrive at these proposals?

This Chapter explores the background discussions and policy developments which led up to the Government's 2023 proposal of a Lifetime Provider Policy Model for pensions. The rest of this report explores the potential impact of a Lifetime Provider Model on the wider pensions landscape, sequencing of policies, and how infrastructure developments could help support a Lifetime Provider Model.

This Chapter looks at:

- **What are small, deferred Defined Contribution (DC) member's pots?**
- **Why are deferred, small DC pots problematic?**
- **How and when did discussions surrounding deferred, small DC pots begin?**
- **What are the current proposals for tackling small, deferred DC pots?**

What are small, deferred members pots?

A "deferred member" is an individual who has pension savings managed by a pension provider or employer, to which they and their employer are no longer contributing. These pension savings are called "deferred pension pots", with "pot" referring to the amount of money held in the pension savings account at any given time. A member's pot becomes deferred when they are no longer actively contributing but, do not yet have access, because, for example, they have moved jobs and no longer have access to the pension scheme used by their employer. Others may stop contributing to their pension without moving jobs because of issues of affordability, or because they intended to opt out of saving through automatic enrolment but missed the one-month opt-out window.[6] A small pot does not always refer to the numerical value of the pot, but the financial effect it will have on the owner's retirement. Therefore, a small, deferred member's pot is a pension saving pot that is no longer being contributed to and pays little financial benefit to the owner in retirement whilst still attracting charges, eroding its value over time. Across this Chapter, deferred, small DC pots will be referred to as 'small pots'.

Why are deferred, small pots problematic?

Small pots are problematic as they create financial challenges for members and industry, with members pots being eroded, and industry facing high administration expenses.

A £500 small pension pot deferred at age 22 would be worth around £100 by age 68[7]

Small pots may prove less financially beneficial for members as they will be eroded over time by charges. Charging structures normally include a flat-fee alongside a percentage Annual Management Charge (AMC). This means a £500 pot, deferred from age 22, with a flat-fee only charge could be

[6] Baker, M., *et. al.* (PPI) (2020)
[7] PPI Modelling (2020)

eroded to £0 by age 63, and could be worth around £100 by age 68 if deferred from age 40.[8] As of April 2022, pots with a value of £100 or less became exempt from flat-fees, which could benefit savers who change jobs frequently in particular.[9] Small pots also reduce the return for members with larger pots as providers must cross-subsidise these small pots in order to breakeven.[10]

Deferred, small pots are estimated to cost the industry up to £225 million per year[11]

An AMC only does not erode the value of small pots, however very small pots are financially unsustainable for providers who do not also charge flat-fees. If an AMC of 0.75% (the highest permissible rate) was charged, the costs associated with running a scheme, with no additional flat-fee, would require an average pot size of around £2,300 for the provider to breakeven (to be spending less or the same amount on administering the pot as the member pays in fees). When this is reduced to nearer the industry average AMC of 0.5% or equivalent, the required average pot size to breakeven grows to just under £4,000.[12] There is an average annual loss to providers of between £3.60 and £18.60 per pot smaller than £1,000, implying an industry loss of up to £225 million a year across the 12 million pots below £1,000.[13]

Without policy change the number of deferred DC pots is estimated to grow to higher than 27m by 2035[14]

Unless addressed, the number of small pots will continue to grow as the number of jobs individuals hold in their lifetime increases. People tend to have somewhere between 6 and 12 jobs in their lifetime on average, meaning they might generate between six and 12 small pots during their working life.[15] The number of small pots accrued will also increase if the government decides to reduce the minimum age of eligibility for automatic enrolment to 18 from 22, as individuals within this age group are especially likely to change jobs or work part-time alongside studying. The PPI estimates that without policy change, the number of small pots could grow from 13 million (2023) to 27 million by 2035.[16] The Department for Work and Pensions (DWP) suggests there are roughly 20 million small pots across the whole DC market (not limited to master trusts) as of 2023, which is higher than the PPI's estimate.[17] According to the PPI, there could be an increase of 15 million pots by 2035 if there is no intervention (Figure 1.1) though the actual number across the market is likely to be higher based on current trends.

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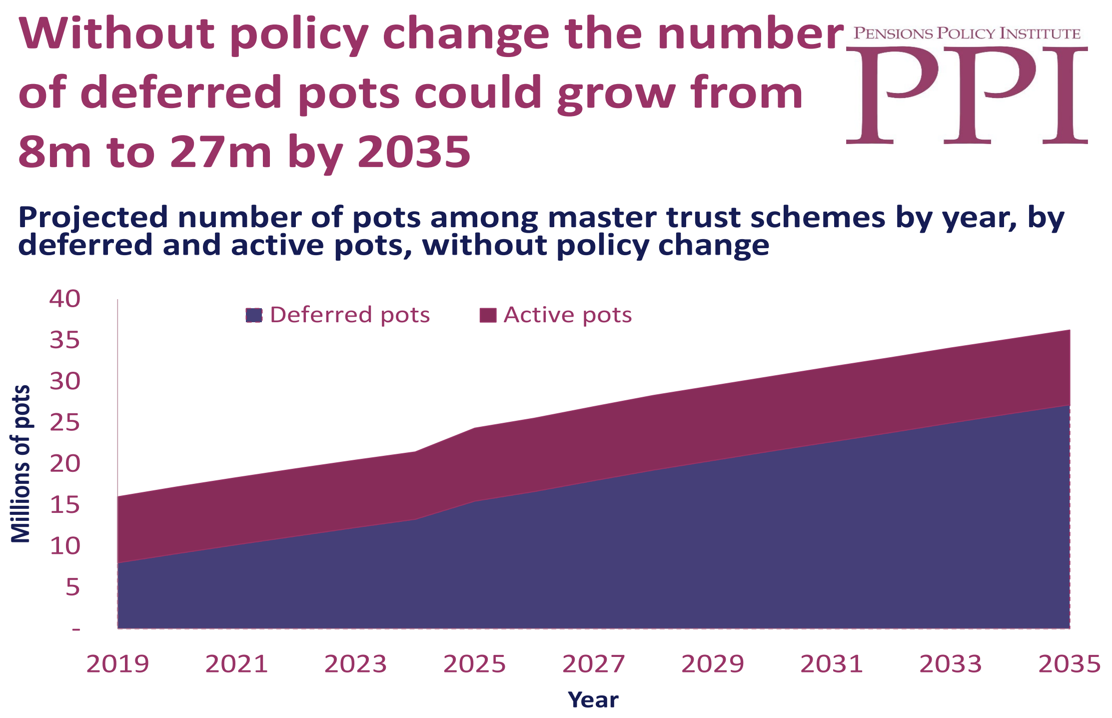
[8] PPI Modelling (2020)
[9] DWP (2022b)
[10] Baker, M., *et. al.* (PPI) (2020)
[11] DWP (2023c)
[12] DWP (2023c)
[13] DWP (2023c)
[14] PPI Modelling (2020)
[15] Baker, M., *et. al.* (PPI) (2020)
[16] PPI Modelling (2020)
[17] DWP (2023c)

Figure 1.1[18]



How and when did discussions regarding deferred, small pots begin?

While there were small, deferred pots prior to automatic enrolment, the introduction of this policy meant that the problem accelerated, and became more significant for a large number of people

Around 2010, issues regarding the proliferation of small pots began to be considered by the Government. This was prior to the introduction of automatic enrolment, and it was anticipated that this new policy would vastly accelerate the proliferation of small, deferred pots creating market problems; with almost every new job a qualifying worker started, a new pension pot was opened, and an old one was left behind, leading to a rapid increase in the number of small pots.

A pot follows member automatic transfer system was considered by government

Steps towards dealing with the proliferation of small pots began to be taken in 2012, the same year automatic enrolment began to roll out. The government released a consultation regarding improving transfers and dealing with small pension pots which included a survey regarding preferences on treatment of pension pots after changing employment; 58% of respondents believed that an old pot should automatically follow you to your new job, without any personal input.[19] There was also a general consensus from respondents that the number of small pots will increase, leading to poor outcomes for individuals.

[18] PPI Modelling (2020)
[19] DWP (2012)

The Government proposed automatic transfers to new employer schemes "pot follows member", in which accrued savings would follow individuals as they move from job to job, aggregating the small pot into the member's next scheme.[20]

The government maintained that it was not the right time for implementation of a pot follows member system

In the following year, the government released another consultation regarding consolidating pension savings, which included several key proposals. It was decided that pots with a limit of £10,000 would be eligible for automatic transfer to an employee's active pot once all contributions have ceased for a prescribed period. The transfer process was going to be based on either a pot-matching solution involving an IT system, or a member driven approach using a 'Pensions Transfer Information Document'.[21]

The government then released a legislative framework in 2015, which set out how they expected to implement the system, including the majority of the proposals from the 2013 consultation.[22] The Government specified that the system would be facilitated by pension schemes rather than employers, however this was not to be implemented until after the 2015 general election, with thoughts that 'it was not the right time' for such efforts.[23]

The consolidation of deferred, small pots was discussed further by government and industry

There was no further action between 2015 and 2018. In 2018, a question for the Department of Work and Pensions was posed regarding potential merits of a system of automatic transfers for individuals who have multiple jobs during their working life. The government's response listed their priority as being the roll-out of automatic enrolment, and said that still it was not the right time to implement automatic transfers.[24] In 2020, the PPI released a report looking at the importance of and problems associated with small pots, and how policy solutions to these could be approached. Several main policy foundations for pot consolidation were outlined, and these included, a pot follows member approach, a lifetime scheme, and the consolidation of pots within schemes:

- A pot follows member approach would mean as members change jobs, their previous pot is consolidated into their new pot,
- A Lifetime Provider Model would have members contributing to one pot throughout their whole working life, and,
- Consolidation of pots within schemes would lead to members with more than one pot in the same scheme having their pots automatically consolidated.

In response to the PPI's small pots report, alongside other work, the government launched an inquiry into solutions for problems with small, deferred member pots. This inquiry was supported by the DWP Small Pots Working Group, with the goal of tackling the growth of deferred, small DC pension pots in the Automatic Enrolment workplace pensions market. Member-led solutions, which require a member to engage with their pension savings to make an active choice, as well as other types of solutions, were considered by the Working Group. The Group concluded that:

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[20] DWP (2012)
[21] DWP (2013)
[22] DWP (2015)
[23] DWP (2015)
[24] UK Parliament (2018)

- Member-led consolidation in the form of a voluntary pot follows member system, or increased engagement through the pensions dashboard alone may not address the growth of Defined Contribution (DC) deferred, small pots.
- A default consolidator or pot follows member system should be prioritised for low-value small pots, with the focus on enabling automatic and automated large-scale transfers and consolidation for the mass-market, and,
- Large-scale cost-effective consolidation of deferred small pension pots will only be possible if current administrative processes are modernised across the Automatic Enrolment workplace pensions market.[25]

A Lifetime Provider Model is now being considered by Government

To further support the DWP Small Pots Working Group and the overall inquiry, the PPI then conducted an international study in 2020, published in 2021, looking at how other countries have dealt with small pension pots.[26] This study yielded three main policies necessary for efficient systems of automatic transfers:

- Unique identification numbers,
- A large central platform, and,
- Unified data standards

Almost all of the countries studied that hosted automatic transfer systems used unique identification numbers, allowing for efficient consolidation and matching of pots to owner, and several countries used central data platforms to manage the flow of contributions. It was also highlighted that countries with a Lifetime Provider Model require pension providers to submit data in a standardised format, allowing for easier collection of data, ensuring that individual contributions are sent to the correct account.

A Small Pots Cross-Industry Co-ordination Group was also convened by the Pensions and Lifetime Savings Association (PLSA) and Association of British Insurers (ABI) in 2021 following the DWP Small Pots Working Group, which focused on ways to overcome operational and administrative challenges associated with a mass transfer and pot consolidation system.[27] The report set out the case for small pots consolidation, identified potential pots in scope, considered potential efficiency gains in the transfer process and outlined the challenges with data matching. Their follow-up report, released the following year in 2022, concluded that "*…although industry can act to reduce some of the small pots in existence, ultimately, only the implementation of market-wide automatic transfer solutions will make a significant difference and prohibit their growth in number in the future*".[28]

As a result of all these works from various organisations, a call for evidence was launched by the UK Government in January 2023, to aid the development of policy options for a large-scale automated consolidation solution, and the Autumn of 2023 saw a consultation on the long-term direction of workplace pensions.

The Government is now pursuing a multiple default consolidator approach. Under this model, eligible deferred small DC pots would automatically transfer to a consolidator scheme chosen by, or allocated to, the member, and members would be able to opt-out. The development of a Lifetime Provider Model is also being considered, which aims to solve the fundamental issue surrounding automatic

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[25] DWP (2020)
[26] Baker, M., *et. al.* (PPI) (2020)
[27] PLSA & ABI (2021)
[28] PLSA & ABI (2022)

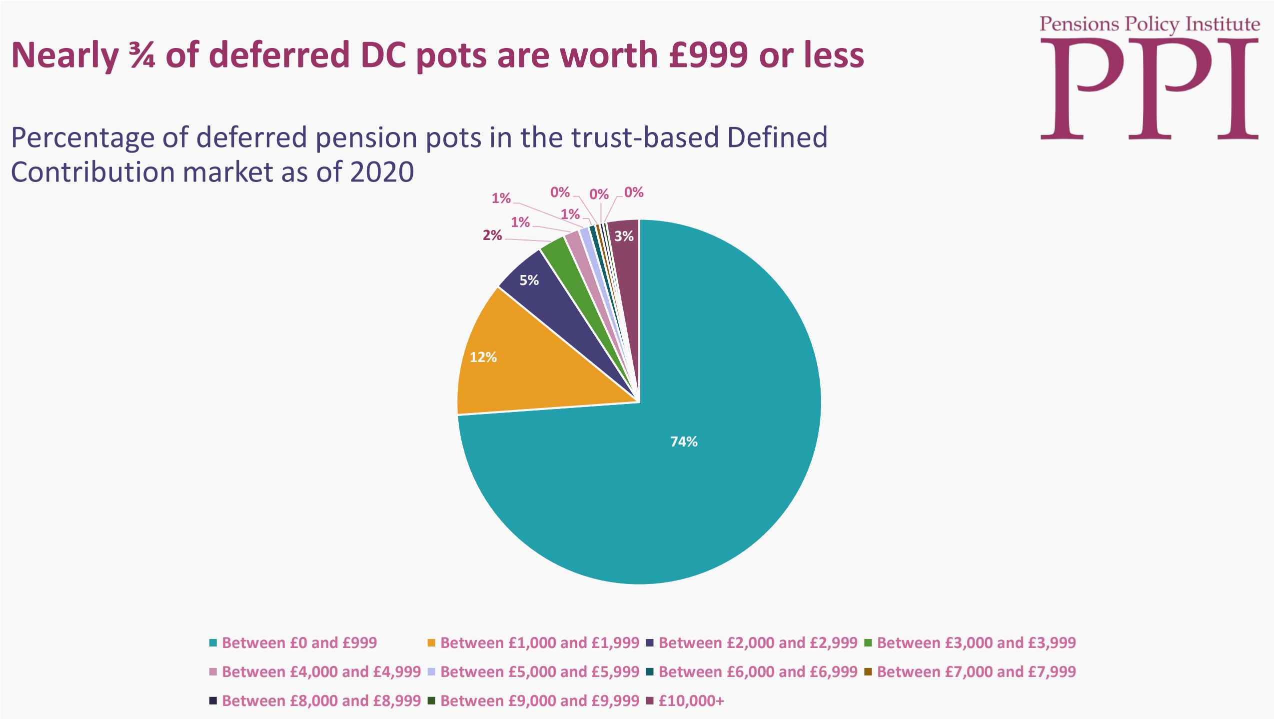
enrolment; the creation of a new pension pot every time someone begins a new job. A Lifetime Provider would see individuals potentially paying all of their working life savings into just one scheme, hopefully leading to a simpler system of workplace pension saving.

There was some debate regarding the numerical value of a small, deferred pension pot

Generally, a small pension pot can be defined as a pot which, by the nature of its size and the circumstances of its management, is unlikely to provide a financial benefit to its owner.[29] Although there is a lack of a definitive, numerical value which would constitute a small pot, there is some consensus within government publications. In one of the governments' earliest consultations regarding improving transfers and dealing with small pension pots, most respondents believed a small pot should be "lower than £5,000 in value, or even £2,000".[30]

Almost 75% of all deferred, DC pension pots are smaller than £999, and a 25% are smaller than £100 (Figure 1.2).

Figure 1.2[31]



[29] Baker, M., *et. al.* (PPI) (2020)
[30] DWP (2012)
[31] DWP (2020)

The maximum pot size for default consolidation was set at £1,000

There was discussion within the government's call for evidence as to which pots should be in scope for default consolidation. Most respondents agreed with a maximum pot size for default consolidation of £1,000, arguing this level would capture the majority of small pots without overly affecting the market.[32] However, some respondents proposed a maximum limit of £500, due to evidence from the small pots working group highlighting that a large proportion of the 74% of small, deferred pots under £1,000 are actually between £50 and £250, meaning a large number of the existing stock of small pots would still get swept up, but would have less impact on the market. A staged approach was also considered, starting with pots of up to £500, and working the way up to £2,500, with pots of a higher value ensuring that automated solutions are cost-effective, but this could increase the risk of market distortion. [33] If the pot limit was set at £500 instead of £1,000, the number of eligible pots for consolidation would be reduced by a third, from 12 million to approximately 8.5 million.[34] The Government decided to go for a £1,000 maximum pot size, in order to 'strike a balance between not setting the limit too low and restricting consolidation , or setting the limit too high and increasing the risk of detriment to members'.[35]

Conclusion

Issues regarding deferred, small pension pots have been the topic of discussion for around 14 years, since before the introduction of automatic enrolment. These pots, which are no longer being contributed to, pose a threat to members' retirement savings, as they have the potential to be eroded over time by flat fees, may become lost, and also hinder engagement. However, as of April 2022 changes to flat-fees were implemented, with the introduction of a de minimis value of £100, making all pots with a value of £100 or less exempt from flat-fees. Charging structures may render small, deferred pots financially unsustainable for providers without additional fees and as a result, providers must cross-subsidise these small pots, resulting in losses of £225 million annually for providers managing pots below £1,000, though some level of cross-subsidisation will be present in most pension schemes.

Without policy intervention, the proliferation of deferred pots is projected to escalate, potentially above 27 million by 2035. The rise in job turnover, coupled with a potential reduction in the minimum age for automatic enrolment will exacerbate this issue, however efforts to address these problems have been underway, with discussions dating back to 2010 and various proposals considered by the government and industry. The models considered include the pot follows member approach, other member-led solutions, and more recently, the Multiple Default Consolidator Model and proposed future Lifetime Provider Model.

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[32] DWP (2023d)
[33] DWP (2023d)
[34] DWP (2023e)
[35] DWP (2023e)

Chapter Two: How might a Lifetime Provider Model impact the wider pensions landscape?

The rest of this report considers the impact that the policy proposals could have on individuals, employers, providers and the Government in relation to:

- **The wider pensions landscape;**
- **Sequencing of policies; and**
- **How infrastructure developments could help support the future introduction of a Lifetime Provider Model.**

This Chapter considers the impact of a Lifetime Provider Model on the wider pensions landscape in relation to other scheme types, the range of agencies involved in pension provision, and wider market pressures.

There are many types of schemes in the pensions landscape

UK private pensions are more varied than those in other countries that host Lifetime Provider Models (e.g., Mexico, Australia) which are dominated by Defined Contribution (DC) schemes with some residual Defined Benefit (DB). These countries have a handful of large DC schemes, used by the majority of people. For example, Mexico has ten approved pension schemes (AFORES) for their compulsory savings programme, Australia hosts around 500 Super Funds, but is dominated by ten which account for almost a half of assets and a third of membership.[36]

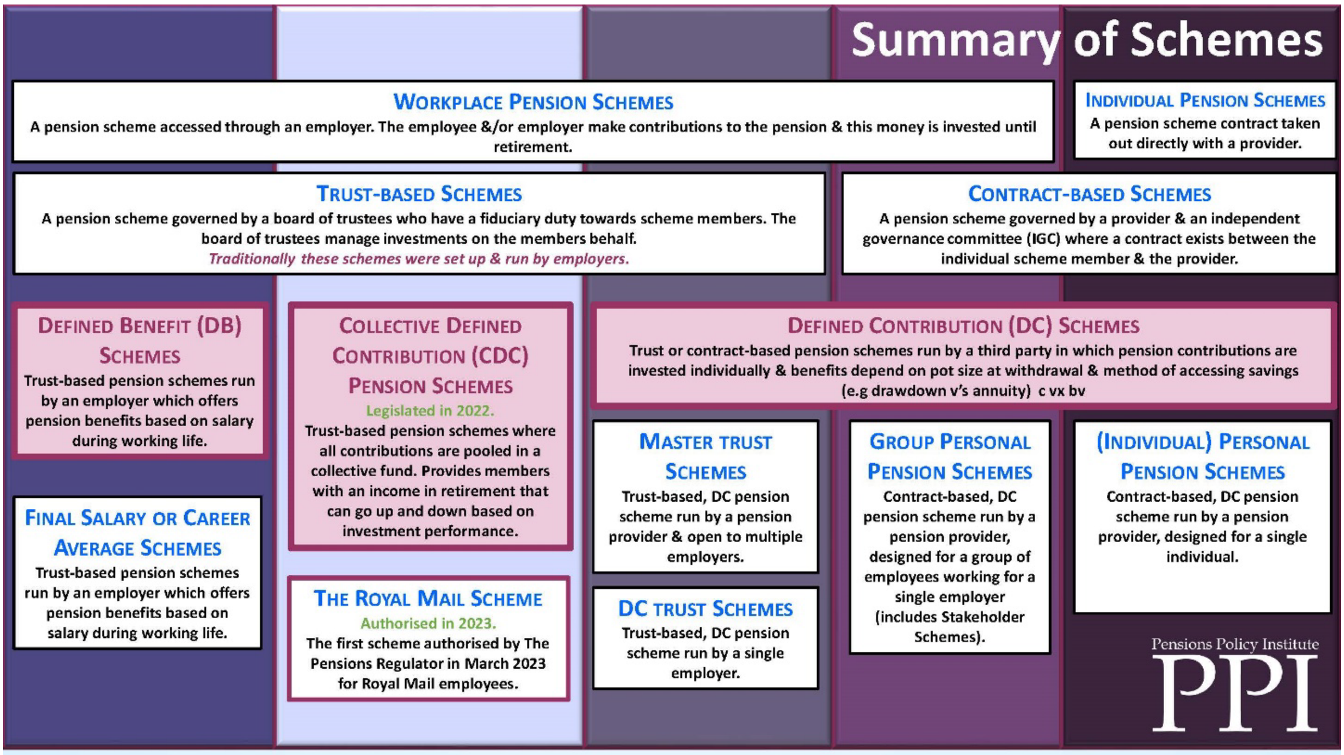
In contrast, in the UK, there are:

- Over 5,050 private sector DB schemes,[37]
- Around 300 public sector pension schemes (the majority of which are DB),[38]
- Around 900 hybrid schemes,[39]
- 28,920 DC schemes of which there are:[40]
    - 27,050 DC trust schemes (including 35 authorised master trust schemes)
    - 1,870 contract-based scheme providers, including multi-employer, Group schemes and personal pensions
- One CDC scheme (in development)

[36] DWP (2023a)
[37] The PPF 7800 index, January 2024: https://www.ppf.co.uk/ppf-7800-index
[38] https://www.civilservant.org.uk/information-pensions.html#:~:text=There%20are%20around%20300%20public,%2C%20armed%20forces%20and%20police.)
[39] TPR (2022)
[40] TPR (2022)

Figure 2.1 shows the many various UK scheme types.

Figure 2.1



The multitude of different schemes, and different scheme types, in the UK presents several issues. It means that a new policy, such as Lifetime Provider, will involve adaptations by, and to, a great number of schemes with different needs and resources. However, scheme numbers may reduce, as there is already a consolidation agenda by Government for small, poorer performing DB and DC schemes, resulting in around 40% of the DC trust market consolidating over the last decade,[41] and Superfunds set up specifically for this purpose in the DB market. The Government's Value for Money policies, currently under design, are also intended to *"…support and accelerate the consolidation of underperforming and poorly run schemes in the UK pension sector with better run schemes…"* [42]

It may be the case that once there are fewer, larger schemes, adoption of a Lifetime Provider Model will be easier as it will mean that:

- There will be fewer schemes to choose between;
- Those in a Lifetime scheme by default (without active choice) will not run as much risk of remaining in an underperforming scheme; and
- It might be easier for schemes to manage any required transitions for the new model.

[41] https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2022-press-releases/defined-contribution-pension-market-consolidation-continues-tprs-latest-figures-show
[42] DWP (2023b)

It may be easier for schemes to transition to a Lifetime Provider Model once there are fewer, large schemes

Some scheme types may work less well with a Lifetime Provider Model

Under a Lifetime Provider Model, theoretically, those already in a scheme will not be enrolled into their new employer's default scheme unless they choose to do so, and people will be able to opt to transfer between schemes at any time, should they wish to. While DC schemes are more suited to transfers in and out (though these can result in loss of guarantees and higher charges/poorer investments), there are specific issues which apply to DB, hybrid and Collective Defined Contribution (CDC) schemes:

- DB and hybrid schemes offer higher pension benefits than DC schemes with attached guarantees and longevity and inflation protection. It could be detrimental for people to miss the opportunity to gain entitlement in a DB scheme because they are already in a Lifetime scheme when they join a new employer. Likewise, those who move from an employer who provides a DB scheme, are unlikely to be able to stay active within that scheme, as:
  - DB schemes generally rely on a high level of employer contributions that a new employer may not offer, and
  - The DB scheme sponsoring employer may not wish to allow people who are no longer employed by them to continue to accrue entitlement in their employer-backed scheme.
- CDC schemes spread risks between members, and can, depending on structure, provide soft guarantees and lifetime, inflating retirement income or lump sums. Like DB and hybrid schemes, CDC schemes are expected to provide a higher benefit and more risk protection than DC schemes, and so people moving to employers who offer access to a CDC scheme could miss out on advantages if they remain in a different Lifetime Provider. While CDC providers, particularly of multi-employer schemes, may allow members changing employers to remain in the scheme, some CDC schemes will require a specific level of contribution from members and their employers, which may not match up with the offering of subsequent employers.
- DB, CDC and hybrid schemes may also depend on a flow of new joiners to remain financially viable, and so preventing new joiners, or encouraging transfers out could harm the scheme's offering for other members.

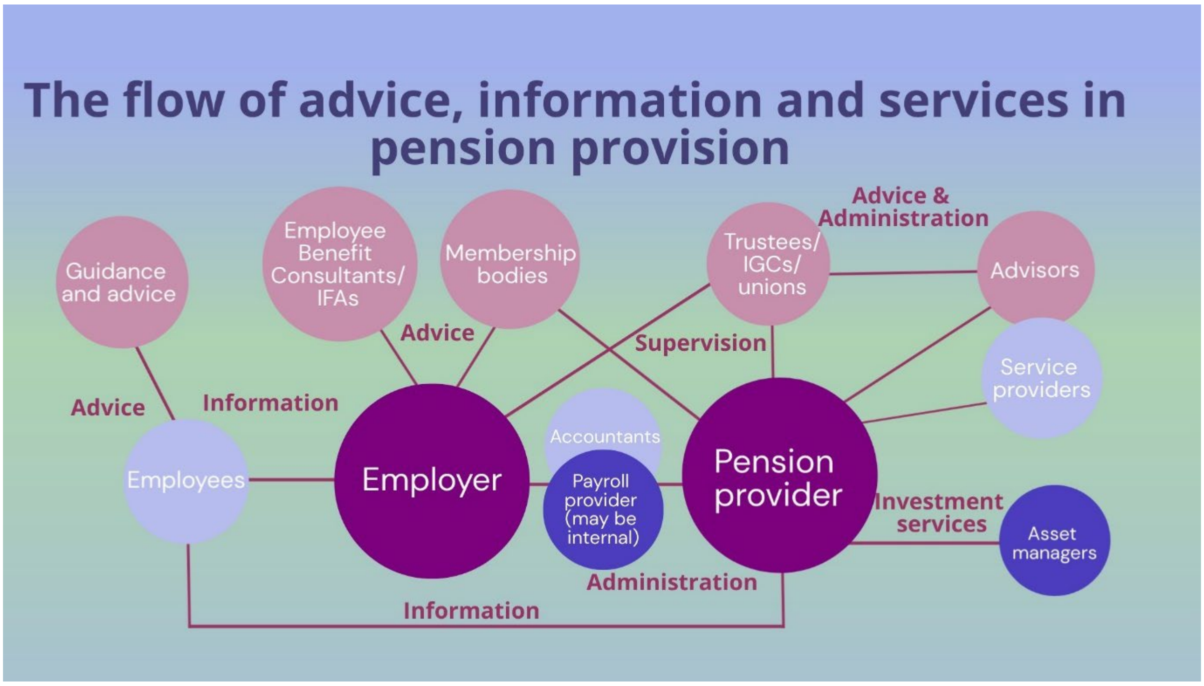
It is likely that, if DB, hybrid and CDC schemes were excluded from a Lifetime Provider Model, member and scheme interests would be better protected.

There are many agencies involved in delivering workplace pension provision

Upon adoption of a Lifetime Provider Model, there are many agencies which would need to adjust their operations in order to comply and remain commercially viable. These can be broken up into the following categories of provision (Figure 2.2):

- Advice and guidance
- Administration and services
- Information
- Supervision

Figure 2.2



Advice and guidance providers will need to update their understanding of regulations and the needs of the groups they serve, alongside any packages they offer

Many employees/members, employers and pension providers receive advice and/or guidance when making decisions about pensions. These are delivered by:

- Guidance bodies and financial advisers for employees/members
- Employee benefit consultants and membership bodies for employers
- Membership bodies and advisors for pension providers

The model these agencies use is currently based around members saving into their employer's default pension scheme, employers offering access to a single pension scheme, and providers mainly offering group or multi-employer pensions. In order to adjust these services, providers of advice and guidance will need to understand how the new regulations work and the potential impact and implications for their service users. This process is likely to cost service providers in funds and time, and these costs will need to be passed on to service users through higher fees, that could ultimately affect pension members through higher fees for advice or employees through lower salary increases.

Administration and service providers will need to update their packages and will depend on external infrastructure for efficiency

Employers and pension providers depend on administration and service providers for:

- Managing contributions for employers
- Managing pension administration and investments for providers (and employer-sponsored schemes).

Some pension providers also work alongside admin providers to support schemes in fulfilling their automatic enrolment duties. Adapting these services to suit a system in which employers make contributions to several schemes and members are actively saving into schemes other than their employers default will require significant updates for service providers. As with advice and guidance providers, the cost for this may pass on to service users and eventually pension scheme members. The degree to which these new services can operate efficiently will depend partly on the external infrastructure available.

Tax relief may require simplification if employers are required to contribute to multiple schemes

Another significant issue for employers and their agents will be managing contributions to multiple schemes with different tax relief structures. Calculating contributions for schemes which operate both Net Pay and Relief at Sources structures would be complex, and require not just separate calculations but also separate information for pay slips. This could become administratively onerous and lead to higher margin for error. It may be worthwhile considering streamlining the tax regime so one of these methods is no longer allowed and all providers apply tax relief using the same structure, though this process would incur significant cost.

It may be worthwhile considering streamlining the tax regime so that all providers apply tax relief using the same structure, either Relief at Source or Net Pay.

Information providers will need to update their services, and pension providers are likely to put more effort and resources into marketing information

Employees provide identification information to their employers and receive information from both their employers and pension providers about their pension. Depending on how a Lifetime Provider Model is structured, employees will either be required to let new employers know who their active pot is with, or will need to let employers know sufficient identification information for their employer to find their pot, or pass on to a third party (Clearing House or service provider) to locate the employee's pot. This system, which requires information passed through several people allows for errors along the chain, if information is provided or recorded incorrectly, so robust checks will need to be in place. The creation of IT structures for all of those involved in the passing of information, with strict data guidelines could help ensure data accuracy and avoid errors, though this would be an expensive undertaking and require regulator oversight.

While pension providers currently provide pension information and updates to employers and employees, under a Lifetime Provider Model, providers are likely to increase their marketing levels in order to attract employees to switch to or remain saving with them, and to attract employers to use their services as a default scheme. The potential marketing budget for attracting members and employers could be quite high, and eat into potential resources for other services and/or lead to higher member costs, for example, marketing costs are high in Australia, which uses a Lifetime Provider Model. One large Super scheme, HostPlus, uses 12% of a member's admin fee for marketing (Figure 2.4).[43]

[43] HostPlus (2021)

Figure 2.3: Australian super schemes have large marketing spends

Large Australian schemes, which are actively marketing to both individuals and employers, pay in excess of AUS$10 million in marketing costs per year (2023),[44] though these schemes are likely to have much higher asset values than most UK DC schemes. Australian schemes also charge members more than UK schemes, ranging from around 0.67% to around 1.2% of AUM for a balanced fund,[45] compared to UK workplace schemes which charged members 0.48% of AUM on average in 2020.[46]

Figure 2.4 Marketing costs in 2023 by Australian Superannuation schemes by amount spent and total spending in that year

	Marketing expenses ($AUD) 2023	Proportion of total annual spend on marketing (2023)
Aware Super[47]	$21k	3%
Australian Super[48]	$40k	3%
Rest Super[49]	$20k	5%
Host Plus[50]	$24k	12%

The proportion of scheme spending on marketing varies between large Australian schemes, (Figure 2.4) and can rise as high as 12%, based on a sample of four. Marketing costs vary widely between UK schemes, a sample of four large UK workplace pension schemes, reveals marketing spends of 1% or less of total annual spend, but large retail schemes who actively market for transfers can spend far higher on marketing, ranging between 6% and 30% of total spend.[51] Under a Lifetime Provider Model, workplace provider marketing costs may increase to levels currently seen in retail schemes.

On the other hand, competitive pressure could result in better services. It will be vital that increases in costs are commensurate with service improvements and member outcomes, if members are to benefit from the new policy. Members may also require more significant support from guidance and advice services, if they are to be able to navigate a world in which they are being more heavily marketed to, and can no longer turn to employers for information about their pension, particularly as providers will no longer be able to provide employer specific education and workshops to employees who are all members of the same scheme, which some do at the moment.

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44 https://www.afr.com/policy/tax-and-super/big-super-spends-lots-of-your-money-on-promotion-here-s-where-it-goes-20231226-p5etp0

45 https://www.superguide.com.au/super-fund-comparison?ref-post=%5BPOST_SLUG%5D

46 DWP (2021)

47 Aware Super (2023)

48 Australian Super (2023)

49 Rest Super (2023)

50 Host Plus (2023)

51 Phoenix, Aviva, NEST & Legal &General, AJ Bell, Hargreaves Landsdown, and PensionsBee spending info from latest annual reports

If members are to benefit from the new policy, member fees will need to be commensurate with service improvements and member outcomes.

A Lifetime Provider Model could lead to higher value members being "poached"

A potential market effect of increased marketing is that schemes with larger marketing budgets and a more recognisable brand are able to attract people with higher value pots away from schemes set up to cater to the needs of lower earners (the target group for automatic enrolment). These larger commercial schemes may not offer better services and may charge more than, for example, Master Trust schemes. This could have the impact of:

- Members paying more and/or receiving poorer services than they would have,
- Schemes with smaller marketing budgets or lower brand recognition, including those who specialise in offering pensions to the Automatic Enrolment target group and therefore need to keep costs low, struggling financially and either increasing member charges or foreclosing.

One potential way of ensuring that members are not disadvantaged by increased marketing activity and that schemes designed for automatic enrolment are able to continue providing services without increasing costs, would be to designate a small number of Lifetime Providers, based on their ability to provide quality, low-cost services. It may be helpful for these schemes to also act as consolidator vehicles, so no schemes are responsible for accepting small pots without also having an opportunity to take on members with larger pots. As with Master Trusts, who serve a potentially vulnerable target group, it is worth exploring options for authorising Lifetime Provider schemes, so that they meet minimum necessary standards.

One potential way of ensuring that members are not disadvantaged by increased marketing activity would be to designate a small number of Lifetime Providers, based on their ability to provide quality, low cost services and Value for Money.

Conclusion

The introduction of a Lifetime Provider Model would require significant market adaptation. There are a multitude of different types of schemes in the UK which have different needs and characteristics, whose adaptation may require time and resource. However, there is currently a consolidation agenda underway, which means that adoption may be easier in future, when there are fewer, larger schemes.

Alongside the number of schemes, different types of schemes are more or less well suited to a Lifetime Provider Model. DB and CDC schemes offer specific benefits to members which may be compromised under a Lifetime Provider Model, unless these scheme types were excluded, meaning that those leaving previous employers were still automatically enrolled into an employers default scheme, if it was a DB or CDC scheme, and those leaving these schemes could not necessarily remain actively contributing.

There are significant agencies involved in the delivery of pensions guidance, advice and services to individuals, employers and schemes. These agencies will need to update their offerings, which may increase the overall cost of services. If members are to benefit from the new policy, member fees will need to be commensurate with service improvements.

There are also concerns about the market effects of the policy, in particular that schemes will need to spend large amounts on marketing to employers and members, and that schemes with larger marketing budgets and wider brand recognition may poach more valuable members from schemes catering to the automatic enrolment target population, without necessarily providing a better service. The Government will need to consider the best way of protecting members from market effects, potentially through authorisation regimes.

Chapter Three: How might a Lifetime Provider Model work alongside other policy agendas?

This Chapter considers how a Lifetime Provider Policy Model could fit in with other current policy agendas.

No policies operate in isolation. There are several pension policy developments taking place at the moment, and the potential interaction between these and a Lifetime Provider Model must be considered. The key relevant policy moves at the moment are:

- Pensions dashboards;
- Value for Money;
- Multiple Default Consolidator Model and a Clearing House.

Alongside the above, the Government is working with industry to develop a framework for pensions access which will affect pension savers and will need to be aligned with a Lifetime Provider Model. Consideration of these pensions access proposals is outside the scope of this report, but work will need to be undertaken in the future, if the Government determines to go ahead with the Lifetime Provider Model, to ensure that all policy models are able to operate together effectively.

Pensions Dashboards could support consolidator and Lifetime Provider Models and could improve engagement

The Pensions Dashboards Programme (PDP) is currently developing a dashboard, which will allow people to log in and view their existing private pension pots and pension entitlement, alongside State Pension entitlement in one place. The dashboard is intended to prevent people from losing pension pots, and support pension access decisions, which aligns with the design principles of the Lifetime Provider Model. Under current plans, all schemes will have included their information and data by October 2026.[52] Once the official PDP dashboard has rolled out, industry will be allowed to produce dashboards which fulfil the same function.

The Government expects pension dashboards to do the following:

- *"…bring together an individual's pensions information from across their pensions, including their State Pension."*
- *"…improve awareness and understanding among individuals, reconnect them with any lost pension pots and transform how they think and plan for their retirement."*
- *"…change how people perceive some of the challenges that historically prevented them from pursuing advice and guidance."*
- *"…particularly help those who have historically been less likely to save for their pensions, including women, ethnic minority groups and disabled people, who are more likely to have these savings […] have a positive influence from an equalities impact perspective."*[53]

[52] https://www.pensionsdashboardsprogramme.org.uk/connection-deadline/
[53] DWP (2022)

There is some evidence that dashboards can improve engagement. This is illustrated by the Danish experience (Figure 3.1).

Figure 3.1: Danish dashboards increased pensions engagement

Danish employees are required to save into workplace pension schemes which are either sector-wide schemes, employer schemes (mostly Defined Contribution) or Defined Benefit civil service schemes.[54] Employees cannot choose where their contributions are paid.

The Danes have had a pensions dashboard (PensionsInfo) in place since 1999, supported by a national identity number that all Danes receive at birth, and immigrants must register for. Very nearly all providers submit data to the dashboard. Though there are still small deferred pension accounts in Denmark, many people stay in their sector-based scheme when they change jobs. The use by all agencies of National Identity numbers means that if you move jobs, your providers are updated about your new address, reducing the likelihood of lost pots.[55] The dashboard does not have the functionality to allow automatic transfers using the platform but offers the following options (this list is not exhaustive):[56]

- All savings/current fund values
- Tools for calculating adequacy levels
- Information about how inflation affects living costs

Though the dashboard itself doesn't provide forecasts, pension providers in Denmark provide forecasts for each age from 61 to 70, which are then displayed together on the dashboard.

Engagement with PensionsInfo has increased over the past few decades. The number of logons has increased by around a third of a million every year from around 240,000 in 2007, reaching around 5 million in 2022.[57] Many of these are multiple logins by the same user; in 2019 there were around 1.5 million unique logons.[58] While the majority, around 60% of users are aged 40-65, the proportion of users both under and over these ages has increased over the past few years.[59] There is anecdotal evidence that engagement with the dashboard increased once all providers were available on the dashboard.[60]

Lessons for the UK:

- Dashboards can be a powerful tool for engaging people with their pensions, once all providers are participating.
- It will be important to reflect on how engagement through the dashboard can help people understand and engage with a Lifetime Provider Model.

Dashboards could help increase engagement, though they are unlikely to lead to the entire working population becoming engaged. In 2019, 20 years after the Danish dashboard was introduced, it was

[54] Silcock, D. (PPI) (2021)
[55] https://www.standardlife.co.uk/about/thinking-forward/articles/article-page/pension-dashboards-sweden-denmark
[56] https://www.pensionsinfo.dk/Welcome
[57] https://www.dashboardideas.co.uk/international-precedents/europe/denmark/; Dutta-Powell, R. *et. al.* (2021)
[58] https://www.dashboardideas.co.uk/international-precedents/europe/denmark/; PensionsInfo 2022
[59] https://www.dashboardideas.co.uk/international-precedents/europe/denmark/
[60] Dutta-Powell, R. *et. al.* (2021)

only used by around 31% of the working age population.[61] Higher levels of engagement are likely to support any new policy model which involves choice or understanding, in addition:

- Dashboards can support consolidator models by allowing people to view pension pots which are above the limit for automatic transfers, or facilitate people to view previous schemes in order to assess whether they do or don't want to be transferred,
- A Lifetime Provider Model would be supported by dashboards if they have resulted in higher engagement so people are more likely to make active choices about where they wish to save; dashboards can also provide people with information about where their various pots are, if they are considering consolidating into one pot for life.

It must also be taken into account, that UK engagement levels are currently low, with around half of those with a Defined Contribution (DC) pot categorised as having low or very low engagement levels.[62]

While pension dashboards are not designed, nor expected, to create a national data standard for pension schemes, the requirement for schemes to submit standardised data to the service and the development of matching capability that is taking place alongside dashboard development, could help support the design of more complete data standards and matching functionality in future, which would help support a Lifetime Provider Model.

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Value for Money development could help support a later design of national data standards and potential comparison metrics in the future

Alongside development of dashboards, the Government is working on a Value for Money (VFM) framework, to support greater value and consolidation among DC pension schemes. The framework is intended to require providers to disclose information about:

- Investment performance
- Costs and charges
- Service quality

The Government says: *"To enable meaningful VFM assessment and accurate comparisons, framework data will need to be collected and published in a consistent and accessible format where data can be easily extracted and processed."*[63]

This implies a level of data streamlining and standardisation that will build on the data standards required for the pensions dashboards. Like the dashboards, while VFM alone may not be sufficient to generate the national data standards required to support a Lifetime Provider Model, they should help the discussion and development of infrastructure around data and make a later process easier.

[61] https://www.dashboardideas.co.uk/international-precedents/europe/denmark/; PensionsInfo 2022
[62] Wilkinson, L. Silcock, D. (PPI) (2024)
[63] DWP (2023b)

The PPI's Pensions Data Project could also help with development of infrastructure

The PPI, alongside five providers[64] have been working on a research collaboration: "The Pensions Data Project", a project to amalgamate data across multiple providers in order to get insight into people's savings patterns, providing the industry with a central longitudinal research database of people's total retirement savings. The current work focuses on aggregating across the master trust members with the five previously named providers. In the longer term, there may be an opportunity to provide other industry-wide insights on the adequacy of individuals' total retirement savings and their resulting incomes. This outcomes of the project will help inform ongoing developments of data standards and matching capabilities within the pensions system.

Value for Money could help support member choice

While a Lifetime Provider Model is intended to work without members making active choices, those who do not choose will still have a default Lifetime Provider of the last scheme they were saving into when the policy was introduced or the first scheme they join (if they have no previous membership). The concern regarding those who are defaulted into a Lifetime Provider is that they may remain in a scheme with higher charges/ poorer investment performance or poorer services than if they had chosen their scheme intentionally. A well-functioning VFM framework could tackle this potential problem from two angles:

- If the VFM framework implementation results in schemes which generally provide high VFM, strong regulatory protection, and have sufficient scale to offer efficient, affordable services, then remaining in a scheme by default should not result in significant financial detriment or risks for members;
- Barring the above, or even in the case of the above, a strong VFM framework could prove useful for engaged employees when choosing a Lifetime Provider, which, if they choose one with more sophisticated investment strategies could lead to better retirement outcomes; though switching may incur costs which minimize the benefit, depending on the process.

Both of the above benefits depend on a fully implemented and iterated VFM framework, which is likely to take time to develop. If a Lifetime Provider Model is introduced before the VFM framework has been developed, introduced and initial teething issues ironed out, there will be less support for employees wishing to choose, and more danger of people remaining in poorly performing or higher charging schemes. Care will need to be taken to ensure that a Lifetime Provider Model does not jeopardise VFM, by allowing schemes with higher marketing budgets and more well-known branding to poach higher value members from other schemes, whose VFM and assets under management would dwindle as a result, harming remaining members in those schemes.

If a Lifetime Provider Model is introduced before the VFM framework has been developed, introduced and initial teething issues ironed out, there will be less support for employees wishing to choose, and more danger of people remaining in poorly performing or higher charging schemes.

[64] B&CE provider of The People's Pension, Legal & General, Nest Insight - the public benefit research and innovation centre set up by Nest, Now: Pension, Smart Pension

Consolidator vehicles and a Clearing House could also support data standards and matching development, while helping to combine small, deferred member pots generated prior to the introduction of a Lifetime Provider Model

The Government's proposals for consolidator vehicles (described in Chapter One) are intended to align with the vision of a more consolidated pensions market *"…with a small number of authorised default consolidators, acting as a consolidator for deferred small pots providing greater value for their members through the economies their scale brings them."*[65]

These will be supported by a Clearing House which will be responsible for matching deferred member pots of under £1,000 with their owner's consolidator and is also expected to support communication between members and schemes.[66]

These policy proposals involve the construction of significant infrastructure, first, the framework for consolidation of small pots, second, the construction of a Clearing House designed to support communication and data sharing.

The development of communications and matching facilities arising from the Clearing House and consolidation infrastructure will make the implementation of a Lifetime Provider Model easier.

The Australian model introduced member choice, data standards and Lifetime Providers over a long time period

The Australians introduced member choice in 2005, 16 years before introducing a Lifetime Provider Model, which they have termed "stapling". In the meantime, they introduced Superstream, an overarching data and payment standard used by:

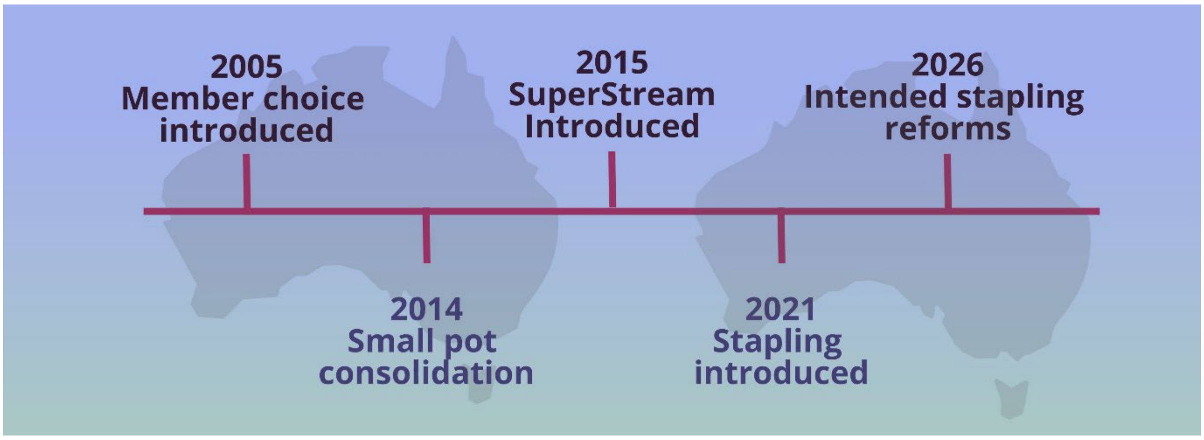
- The Australian tax office, (Australia's "Clearing House") alongside other sources of information, to match data and ensure the correct contributions are being made,
- Pension schemes, to transfer pots between themselves, and,
- Employers to make contributions.

SuperStream was designed with the intention of ensuring transfers are speedier and more efficient. Small pot consolidation was introduced in 2015, six years prior to stapling.

Introducing policies with long spaces in between allows for iterations and problem solving. For example, reforms are underway already to improve the efficiency of stapling in 2026 (Figure 3.2).

[65] DWP (2023c)
[66] DWP (2023c)

Figure 3.2: Australian pension policies were introduced over a long time period



A Lifetime Provider Model is likely to be more effective if introduced after dashboards, VFM, small pot consolidators and a Clearing House.

Conclusion

No policies operate in isolation. There are several pension policy developments taking place at the moment, and the potential interaction between these and a Lifetime Provider Model must be considered.

- The requirement for schemes to submit standardised data and the development of matching capability that is taking place alongside dashboard development, could help support the design of more complete data standards and matching functionality in future.
- If a Lifetime Provider Model is introduced before the VFM framework has been developed, introduced and initial teething issues ironed out, there will be less support for employees wishing to choose, and more danger of people remaining in poorly performing or higher charging schemes.
- While Dashboards, VFM, multiple default consolidators and a Clearing House are unlikely to result fully in the development of the infrastructure needed to support a Lifetime Provider Model, they will all help to some degree, as will the PPI's Pensions Data Project. It may be necessary to develop and roll out these other policies with sufficient time for iterations, prior to considering the introduction of a Lifetime Provider Model and the development of its necessary support systems.

Chapter Four: What infrastructure needs to be in place to support a Lifetime Provider policy?

This Chapter explores what infrastructure may need to be in place in order to support efficient delivery of a Lifetime Provider Model in relation to:

- **Data and matching facilities and IT infrastructure**
- **Member support**
- **Costs and taxation**
- **Scheme authorisation**

Stakeholders are concerned about whether the current data and matching infrastructure is sufficient to support a Lifetime Provider Model

Feedback from the workshop PPI held in January stressed the necessity of unified data standards, a robust IT infrastructure and some form of unique identity number to support the implementation of the Lifetime Provider Model and avoid unnecessary costs, complexity and mistakes. A central Clearing House was also deemed essential, though there were questions about who would manage it (government vs. private sector).

Specifically, pension and service providers were concerned about the scope for mistakes in data sharing between organisations under a Lifetime Provider Model. The lack of standards around how data is organised and formatted means that different agencies may enter data in different formats, making it difficult to run a national data sharing platform or Clearing House, or quickly, efficiently transfer funds between providers.

The Government's recent call for evidence proposes that pensions dashboards will drive data standardisation. There is concern from stakeholders that dashboards will not provide sufficient support as dashboard standardisation does not apply to all areas of data shared between providers, and dashboards will depend on user interfacing, to rule out some errors or even scope for fraud.

It is likely that a national, purpose-designed data standard will be necessary to ensure proper functioning of a Lifetime Provider Model. While dashboards data standards may contain some lessons for how to build this system, they are unlikely to be sufficient on their own.

It is likely that a national, purpose-designed data standard will be necessary to ensure proper functioning of a Lifetime Provider Model.

Current matching capabilities are not sufficient to support a Lifetime Provider Model

At the moment, the Pensions Dashboards programme (PDP) is finding it difficult to match people to their pensions, because of the lack of robust identification facilities available in the UK. The PDP is testing a combination of National Insurance Numbers (NINOs), addresses, forenames and surnames. While these will be sufficient to match some people, for those who have moved, or have changed their first or last name, or have a new or duplicated NINO, matching data will be unreliable.

The user interfaces with the pensions dashboard, and has the opportunity to input into whether they recognise the schemes associated with their information, but if, as under a Lifetime Provider Model matching of contributions is left to employers and service providers (including future Clearing Houses), the lack of robust matching criteria could result in difficulty identifying member's current active pot. Difficulty in matching may lead to lengthy and expensive processes to support transfers or contributions and could result in pots being matched to the wrong person, which may not be discovered for some time. These costs could result in inefficiencies and expenses which reduce the intended savings from a Lifetime Provider Model.

In order for a Lifetime Provider Model to achieve cost savings and better services for members, difficulties in matching will need to be addressed, potentially through the introduction of a unique identity number, or through strengthening other matching processes. It may be necessary as well to add an additional ID verification check into the matching process, as an added precaution against mistakes.

If a national identity number was developed, an existing identification number such as, National Insurance Numbers, Tax IDs or NHS numbers could be strengthened rather than starting from scratch.

In order for a Lifetime Provider Model to achieve cost savings and better services for members, difficulties in matching will need to be addressed, potentially through the introduction of a unique identity number.

There are trade-offs involved in the development of unique identity numbers as they involve long, complex processes:

- Developing the required infrastructure for the US social security number took two years (1935-1937) though it was not considered a unique identifier until later in the century,
- Australian identity cards and numbers have been through several iterations since 1985, and have caused political controversy,
- The Swedish Personnummer, went through several iterations between 1947 and 1967,
- Chile allowed ten years to digitalise its national identity number system and issue 25 million eID cards.[67]

Government and industry will need to consider the most efficient way of achieving better matching capabilities so that a Lifetime Provider Model is sufficiently supported, taking into account the potential costs and time associated with development.

IT infrastructure may need development

Data standards and matching capabilities will not be sufficient on their own to support a Lifetime Provider Model. The data will require support from a strong and secure IT system, in order to maximise speed and efficiency for providers, allow for monitoring by regulators and remove opportunities for fraud, or at least make fraud easier to detect.

[67] Silcock, D. (PPI) (2021)

The data will require support from a strong and secure IT system, in order to maximise speed and efficiency for providers, allow for monitoring by regulators and remove opportunities for fraud, or at least make fraud easier to detect.

This is evidenced by the Mexican Lifetime Provider Model, which required new infrastructure to prevent providers fraudulently switching members in order to give each other commission (Figure 4.1).

Figure 4.1: In order to monitor Lifetime Providers and protect members, Mexico introduced a comprehensive IT system

Since 1992, pension saving (into mainly Defined Contribution schemes) has been mandatory for Mexican employees, and since 1997 a Lifetime Provider Model has been in place. Employers pay contributions using software controlled by the social security institute; then contributions are sent to the employee's account with one of Mexico's ten pension providers (AFORES) by a privately managed central processing company (Procesar). Procesar is funded by the pension providers through a levy on AUM and is regulated by the Mexican Pension Fund Commission (CONSAR).

In 2013, the regulator detected that around three to four AFORES were either pushing members to switch or switching them without permission in order to generate commission charges (which would be a percentage of AUM to the receiving scheme). As a result, members lost money and did not always know which AFORES was managing their active pot at any given time. Part of the reason these activities had gone undetected was the lack of data available to supervise and monitor and the process of transferring was not rigorous. Therefore, CONSAR introduced a data-driven supervisory process. It:

"…mandated Afores to fully digitize client-facing processes so it could generate analyzable digital data from each client interaction. The data are stored in a central database at Procesar,[…]. Procesar conducts reporting to Consar almost in real time (i.e., Consar downloads data from Procesar every two hours)." [68]

CONSAR identified three key lessons from this experience:

1. The digitisation of all customer/provider interactions was necessary for real-time monitoring of all interactions and to prevent fraud.
2. The regulator had to use strong legal powers to impose the data and digitization regime on the pensions system.
3. While CONSAR deployed a machine learning application to analyse the data gleaned from the new reporting regime and detect risks of fraud or poor practice, it was still necessary to have human analysts check the data and provide solutions.

Lessons for the UK:

- A national system opens up opportunities for some agencies to profiteer and a robust data gathering and analysis system is necessary to protect members.
- The Mexican regulator needed to become involved in the design and enforcement of reporting and data collection.

[68] https://www.cgap.org/sites/default/files/research_documents/2022_02_MMT_Mexico.pdf

- Transparency of transactions and interactions is necessary for a robust system which puts members needs first.

The Clearing House may be a good candidate for providing the IT infrastructure

The Government intends for a Clearing House to be set up to match contributions to pots and support communication between members and their schemes.[69] If the Clearing House is responsible for matching contributions, it will need access to data either asked for or sent from providers, so may be an ideal candidate for offering supportive IT infrastructure as it will already have developed data collection and matching systems.

If the Clearing House is responsible for matching contributions, it will need access to data either asked for or sent from providers, so may be an ideal candidate for offering supportive IT infrastructure as it will already have developed data collection and matching systems.

As with the development of data standards and national identity numbers, the development of a Clearing House and robust IT system will take time and money. The Government and industry will need to consider the most efficient way of developing the required infrastructure so that member costs do not rise significantly. It will need to consider whether the Clearing House should be a central database which holds provider and member information, or a platform which asks schemes for data when members enter the system.

The Government must also consider which entity they wish to run the Clearing House. Australia, Mexico and the USA all have Clearing Houses run by and funded by industry, though Australia's Tax Office (ATO) manages the transfers of small, deferred member pots. Mexico's and Australia's Clearing Houses are closely monitored by the regulator. Within each arrangement there will be trade-offs, and, as with the development of other infrastructure, the impact that the funding model will have on members will need to be taken into account.

It will be important to ensure member fees aren't significantly impacted by the new policy model

There are several ways in which member fees could be impacted, including: through increased provider marketing costs, increased costs for members of schemes who have lost higher valued pots to other providers, costs of policy infrastructure development and, the potential for lower wage increases if employers have to pay more for their advice, payroll or accountancy services. If members end up paying increased costs, this could undo some of the potential benefits of the policy, though they could still, in theory, gain overall if increased costs are outweighed by increased returns, generated through more sophisticated investment strategies, fuelled by higher scheme asset values. Cost increases might be mitigated by future levels of scale if schemes become fewer and larger in size. Alternatively, if schemes with higher marketing budgets attract higher value members from schemes operating at lower cost, both asset values and the potential for more sophisticated investment strategies could be jeopardised. There are many unknowns and moving parts. It will be necessary to conduct cost analyses of all of the different policy strands and effects and to have an understanding about how these will be funded long term, in order to calculate the potential impact on members. It would be helpful to conduct this analysis prior to taking the decision to pursue a Lifetime Provider Model.

It is also worth considering the potential impact on regulator funding as, for example, the Pensions Regulator charges it's levy per scheme member and therefore the greatest share of the costs could

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[69] DWP (2023c)

fall on those schemes who cater to the lowest earners, who may not benefit as much from the policy as higher earners.

Combining Lifetime Providers and Multiple Default Consolidators may help prevent high charges

Chapter Two touched on the role of consolidator vehicles and the potential for these to become financially unstable unless they also operated as Lifetime Providers. If specific schemes are designated as consolidator vehicles, without being required to offer active pots, then this will have two potential outcomes:

- These schemes will be responsible for managing mainly smaller pots, which can increase administrative costs.
- These schemes will not be subject to the automatic enrolment charge cap.

As a result, those whose small, deferred member pots have been consolidated, may be charged more than they would have been if their pots had remained invested in their previous scheme, especially if these schemes are outside the charge cap.[70] In order to prevent consolidated pot owners being charged more, schemes which offer consolidation services may need to be required to offer active workplace pensions and/or be authorised as Lifetime Providers.

In order to prevent consolidated pots being charged more, schemes which offer consolidation services may need to be required to offer active workplace pensions and/or be authorised as Lifetime Providers.

Member engagement may help members achieve better outcomes from a Lifetime Provider Model

While the Value for Money (VFM) policy agenda is expected to bring about scheme consolidation and ensure that schemes all perform above a high standard, member engagement could still improve member outcomes if, for example, members are able to choose a Lifetime Provider which offers higher net returns or offers investment strategies and/or other options which suit their personal needs and characteristics; though allowing member choice does not necessarily mean that members will make the best choices for their needs.

Additionally, if VFM takes longer to achieve the desired effect, and the Lifetime Provider Model goes ahead, active scheme choice will have a more significant impact on member outcomes. Unless implemented carefully, a Lifetime Provider Model could result in higher value members moving to schemes with larger marketing budgets, jeopardising the charges and investments in schemes catering to lower earners.

Stakeholders at the January PPI workshop raised concerns that members, who currently have low levels of engagement, are unlikely to actively choose providers under a Lifetime Provider Model, and that if VFM is not sufficient to bring all schemes up to standard, people may remain in underperforming schemes.

While looking at the Australian example will not tell us precisely how people in the UK might behave, it is helpful to reflect on their level of member engagement with Lifetime Providers. Since 2021, the proportion of savers switching actively between schemes has grown from 7% to 9%. However,

[70] Pike, T. (PPI) (2021)

member choice has existed in Australia since 2005, and so a significant proportion of members were actively choosing a de facto pot for life prior to the introduction of Lifetime Providers, evidenced by the 43% of members contributing to a pot other than their employer's default over the past five years (Figure 4.2).

Figure 4.2: 43% of Australian Super members are in pots other than their employer's default

Australia has a Defined Contribution (DC) dominated pensions market where most people save into their Superannuation pension scheme, "Super". Since 2005, members have been allowed to choose to have their contributions paid into a different scheme than their employers default. Before and after 2005, Clearing Houses began to develop to support the choice architecture, and from 2014 (when Australia's data standard SuperStream was introduced) it was compulsory for companies with over 20 employees to use a Clearing House.

In 2015, the Australians implemented a model similar to the multiple default consolidator model proposed by Department of Work and Pensions. Small deferred DC pots of AUS$6,000 or less which have been inactive for 16 months are transferred to the Australian Tax Authority, who then transfers them on to the individuals active account unless they are retired, have no new pension, or the pot value is below AUS£200, in which case they are held in trust or transferred into the individual's bank. [71] This contrasts with the UK proposal, which would involve small pots being transferred to a consolidator vehicle, rather than joining with a current pot, and these vehicles would be managed by industry.

Australia introduced a Lifetime Provider Model in July 2021, in which those starting a new job either nominate a pension scheme, have their contributions paid into their current active pot, or, if neither of the above apply, are enrolled into their employer's default scheme. As a result of the small account transfers and the Lifetime Provider Model, in June 2022, 76% of those with a workplace "Super" pension (around 12.6 million people, around 92% of those aged 20 to 64)[72] had only one account, up from 75% in 2021 and 65% in 2019.[73] The annual rate of super savers actively switching between pension schemes has increased since 2021 from 7% to 9%,[74] potentially because of the policy introduction and press campaigns encouraging engagement.

As Australians had the right to choose from 2005, there are a proportion who had already settled with a Lifetime Provider before 2021; over the past five years, 43% of super savers were in schemes other than their current employer's default.[75] This implies that the number who actively chose a provider is higher than the percentages choosing to switch every year.

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[71] https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/keeping-track-of-your-super/inactive-low-balance-super-accounts

[72] Australian Bureau of Statistics, Regional population by age and sex, 2022, Table 3: Estimated resident population by age, Local Government Areas, persons – 30 June 2022, https://www.abs.gov.au/statistics/people/population/regional-population-age-and-sex/latest-release#data-downloads

[73] https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/super-statistics/super-accounts-data/super-data-lost-unclaimed-multiple-accounts-and-consolidations/trend-towards-single-accounts?anchor=Trendtowardssingleaccounts#Trendtowardssingleaccounts

[74] Investment Trends (2023)

[75] SuperChoice (2024)

VFM could help member choice under a Lifetime Provider Model

Member choice in Australia is assisted by comparison metrics between Australian Super schemes provided by the ATO. The UK VFM framework is designed to produce data that will allow similar comparisons of UK funds. Though the Government is not yet clear on how and where this information will be displayed, it suggests:

- A decentralised approach, such as providers websites, or,
- An official centralised portal.[76]

The Government may choose to use dashboards in the future for this (though not in the current dashboard scope), the Clearing House, or through another means. However, these comparison tools will need to be available and accessible if members are to have sufficient opportunity to make informed choice about a Lifetime Provider.

Conclusion

The Lifetime Provider Model may require unified data standards, a robust IT infrastructure and some form of unique identity number to support implementation and avoid unnecessary costs, complexity and mistakes.

- It is likely that a national, purpose-designed data standard will be necessary to ensure proper functioning of a Lifetime Provider Model. While dashboards data standards may contain some lessons for how to build this system, they are unlikely to be sufficient on their own as the dashboard will involve users interfacing directly with the platform, and within a Lifetime Provider Model matching will need to be automated.
- Current matching capabilities are not sufficient to support a Lifetime Provider Model. In order for a Lifetime Provider Model to achieve cost savings and better services for members, difficulties in matching will need to be addressed, and a potential ID verification check may be needed.
- Data standards and matching capabilities will not be sufficient on their own to support a Lifetime Provider Model. The data will require support from a strong and secure IT system.
- If the Clearing House is responsible for matching contributions, it will need access to data either asked for or sent from providers, so may be an ideal candidate for offering supportive IT infrastructure as it will already have developed data collection and matching systems.
- In order to prevent consolidated pot owners being charged more, schemes which offer consolidation services may need to be required to offer active workplace pensions and/or be authorised as Lifetime Providers.
- Comparison tools will need to be available and accessible if members are to have sufficient opportunity to make informed choice about a Lifetime Provider.

[76] DWP (2023b)

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Acknowledgement & Contact Details

The Pensions Policy Institute is grateful for input from many people in support of this paper, including:

Danielle Baker	Lizzy Holliday	Paul Richardson
Brian Chong	Jamie Jenkins	Richard Smith
Pete Glancy	Tarryn Kleinschmidt	Mathew Zimmerman
Rita Hamden	Maritha Lightbourne	Paul Richardson
Janine Harrison	Sarah Luheshi	

Editing decisions remained with the authors who take responsibility for any remaining errors or omissions.

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