Member choice for pensions: Addressing some common questions

BRIEFING PAPER

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This paper builds on the SMF paper published in December 2023, which argued for 'member choice' in pensions. With such a proposal under consideration by the Government, it addresses some common questions and misapprehensions.

KEY POINTS

- Giving employees the right to choose where to send their pension contributions ('member choice') would bring several improvements:
    - address the flow of 'small pots' accumulated across disparate jobs
    - encourage providers to treat individuals, not employers, as their key customers
    - help savers engage more with and take ownership of their savings
- Any risk of lost cross-subsidy within pension schemes from larger to smaller contributors should be weighed against the benefits to ordinary savers of:
    - having a single pot: efficiency and reduced risk of losing savings
    - lower charges in a more competitive market
    - higher engagement (and potentially, higher contributions)
    - Better, more personalised, customer service
- Under the proposed scheme, employees would not be required to choose a provider themselves: the changes would be integrated into auto-enrolment, and their savings could be integrated in a previous or current employer pension by default.
- Employers should not be disenfranchised by the changes – they should recognise the benefits of a single pot for their employees
- Lifetime providers would remain highly regulated, and savers should therefore be protected against poor value for money and scams
- A central clearing house – 'PensionClear' – is a critical component of the changes to maximise efficiency and minimise the burden on employers

In December 2023 the Social Market Foundation (SMF) published my paper *Member choice, to complement small pots' consolidation, culminating in a single pot for life.*[1] This has subsequently been discussed at a number of roundtable events, including senior politicians and officials. This paper comprises a series of answers to questions that have been raised both in the media and at events attended by me.

WHAT EVIDENCE IS THERE OF MARKET FAILURE, SUCH THAT GOVERNMENT ACTION IS REQUIRED IN RESPECT OF A LIFETIME PROVIDER MODEL?

The "small pots problem" was anticipated as soon as the Pensions Act 2008 materialised, i.e. well ahead of automatic enrolment's (AE) subsequent implementation, in 2012. It has always been treated as "tomorrow's problem", one which the industry has had ample opportunity to act collectively and address. In parallel, there have been several attempts by the DWP to chivvy the industry into action, via published consultations and responses spread over more than a decade.[2]

But [3]the industry is fundamentally divided. It has produced a succession of reports replete with analysis of the small pots problem[4], but it has failed to produce a coherent set of proposals with universal industry support. As The Times recently pointed out, any proposal would threaten the business models of some, and enhance those of others.[5] Market failure to the fore.

Meanwhile, a pensions landscape littered with millions of small pots is in no one's interests, consumers and industry alike. Retirees find themselves with multiple small, scattered pots, and hence with weaker annuity purchasing power (relative to having one much larger pot). In addition, with engagement subdued (people are far more likely to be excited by one bigger pot), there are far more lost pots than otherwise (over 2.8 million pots, estimated to contain £27 billion of assets, 5% of total uncrystallised DC pot assets).[6]

As for the industry, its net loss in respect of administering sub-£1,000 pots is estimated to be up to £225 million per year,[7] leaving it less efficient and profitable than otherwise.

The Government's patience has now expired, and it is showing leadership to resolve what has developed into a classic tragedy of the commons. The 2023 Autumn Statement announced two parallel initiatives to address the small pots problem. A limited number of default consolidators will focus on diminishing the existing stock of small pots, and lifetime providers will help reduce the ongoing "flow" rate (currently over one million new sub-£1,000 pots are created each year).[i]

Above all else, the Government must not lose sight of what really matters; the consumer interest.

[i] A number primed to accelerate with the passing of the Pensions Extension of Automatic Enrolment Act, which reduces the age for automatic enrolment from 22 years to 18 years of age.

LIFETIME PROVIDERS: WHAT WOULD BE THEIR PURPOSE?

The rationale for introducing lifetime providers includes the following:

1. to arrest the ongoing flow (i.e. creation) of new small pots[ii];
2. to encourage workplace pensions providers to treat individual employees, rather than corporate scheme sponsors, as their clients. Most employees would probably prefer to communicate directly with a customer-centric lifetime provider rather than with (anonymous) trustees acting as agents for another party;
3. to help people take ownership and agency of their savings through the experience of possessing a single, larger pot, rather than a scattering of small pots. Indeed, it is hard to understand how opponents of lifetime providers can deny ownership rights over individuals' largest or second largest financial asset. Generations Y and Z would find this particularly hard to comprehend. The current arrangement effectively leaves employers (or their agents) to assume full fiduciary duties; and (connected)
4. helping people transition from a state of 'pensions inertia' when commencing work (successfully harnessed by AE) to having at least some degree of engagement with their pension pots by the time they retire.[8] A back-up "hard" default decumulation solution will not suit everyone (the "opt out" model, now in discussion).

Today most new retirees (except the relatively few willing to pay for advice) find themselves on their own when it comes to pension matters, and many are totally unprepared to make rational (and often difficult) decisions.[9] Indecision, or poor decisions, often follow. For example, many people with multiple small pots are tempted to empty them and put the cash in a bank, not least because of the huge effort required to consolidate them.

Indeed, auto-enrolment providers with predominately small pots (including Now: Pensions, Cushon, and The People's Pension) are seeing almost all their retirees cashing out in full with, for example, more than 80% of L&G, Aviva and Nest savers doing so.[10]

Conversely, large pots grab the attention in a way that small pots do not, weakening the temptation to cash them in at retirement. Full cash-out rates are *significantly* lower for savers with pots over £30,000, across most providers. At Standard Life, for example, 88% of retirees with pots exceeding £30,000 entered drawdown in 2022 (79% at The People's Pension). Consequently, a substantial proportion of the assets remain invested well into retirement, the overall financial outcome being, very likely, much healthier than just emptying a pot at retirement.

[ii] The limited number of default consolidators should take care of the stock of small pots.

This data is supported by consumer groups who have conducted behavioural research on multiple pots and decumulation.[iii] They found that people with more pots and smaller pots were less able to optimise their consumption across retirement, which in part is likely to be because having many pension pots creates complexity.

WHAT HAS THE AVERAGE WORKER GOT TO GAIN FROM HAVING A SINGLE POT FOR LIFE?

Today, competition for workplace schemes is relatively weak; employers rarely change their provider. The prospect of members being able to exercise choice to establish a pot for life will bring the agency, assertive competition, transparency and the attributes of the Value for Money (VFM) framework of retail pensions arrangements into the workplace pensions arena.

Concerns have been expressed that some higher earners (with larger pots) would exercise member choice to leave their current workplace pension scheme, thereby undermining larger pots' cross-subsidy of smaller pots.[iv] There have always member cross-subsidies within any pensions arrangement, both intertemporal and between colleagues.

But critics are ignoring the detriment already being caused to low earners by the perpetuation of the *status quo*, i.e. multiple, scattered, sub-scale pots. And they are also ignoring the impact of the lifetime providers' siblings, the small number of default consolidators, which are, in any event, set to reshape all the cross-subsidies in the market. And also bear in mind that people with relatively large pots who exercise member choice and enter a lifetime provider's default fund would continue to subsidise those with smaller pots invested in that same fund.

What matters is the *net* economic impact on individuals, in a market that will include consolidators and lifetime providers. This has several components, including:

- the (cost and pricing) efficiency of having one pot, rather than multiple pots, by the time decumulation commences, including economies of scale. Some schemes have an automated tiered charging structure which reduces for larger pots; savers would therefore automatically benefit;
- a reduced risk of future lost pots achieved through continuity of communication with a single provider;
- lower charges arising from heightened competition to retain pots, and attract new pots (particularly if providers exert pricing pressure on fund managers);
- larger contributions, encouraged by the engagement allure of having a single large pot;
- improved customer service, partly through enhanced personalisation.

[iii] Including Which?

[iv] Charges are expressed as a percentage of the size of contributions, so larger pots effectively subsidise the administration cost of smaller pots.

Value for money would then improve and, ultimately, retirement incomes would be larger than otherwise (not least because owners of larger pots enjoy a stronger annuity purchasing power than those with small pots).

The Times summarises the benefits of lifetime pension pots as follows:

> *".....there is a big prize here – more engagement with saving, more understanding of what to do as retirement age looms, less complexity and bureaucracy, and higher retirement incomes. The current system is mad and getting madder."*[11]

WILL THE LIFETIME PROVIDER MODEL OPERATE BY DEFAULT OR WILL IT RELY ON ENGAGED INDIVIDUALS ACTING UNILATERALLY?

The DWP is yet to opine on how an employee's lifetime provider would be identified. Central to the discussion are behavioural considerations, and to what extent any form of "default" should play a role. The current rules accommodate those employees who actively request their employer to pay pension contributions somewhere other than the workplace scheme. So, arguably, if there were no "default", then there would be no material change to today's arrangements.

However, integrating lifetime providers into the AE framework would be transformative because it would provide an alerting nudge as to the opportunity to build a single pot for life. Introducing the unambiguous "right" to request AE contributions to be sent to somewhere other than the employer's scheme (such as a lifetime provider, or a consolidator) is an important first step for implementation, and would require the employee (not the employer) to identify the destination provider.

The second phase of implementation should be to introduce a default whereby contributions would be sent automatically to an employee-nominated lifetime provider (or consolidator). This approach should be supported by a "no-response waterfall" to accommodate those employees who fail to provide their employers with the destination details of their pensions contributions. This could, for example, first attempt to send contributions to a new employee's *previous* workplace scheme[v], but if that proved impracticable[vi] then the employee could be enrolled into the employer's scheme.

Alternatively, some form of carousel could be adopted (the DWP has indicated in interest in this), which would entirely absolve employers from any responsibility to select and designate a workplace scheme.

To be clear, whatever the default decision-making structure that finally emerges, there is no intention to place employees in a position where they are forced to choose a provider for themselves.

[v] This is broadly consistent with Australia's compulsory "stapling" framework, introduced in 2021. The Australian Tax Office (ATO) plays a role in the arrangement.

[vi] The previous employer may not accept membership from ex-employees, or it may have closed down, or simply not answer correspondence.

WOULD THE INTRODUCTION OF LIFETIME PROVIDERS DISRUPT AUTOMATIC ENROLMENT?

No. Employers will continue to be required to comply with the legislation to auto-enrol their employees into a qualifying pension arrangement, and to adhere to the safeguards that are already in place to protect individuals.[vii] Many employees could be expected to want their workplace-derived contributions to go into their individual Personal Pensions (IPP) and SIPPs.

Consequently, all lifetime providers should be required to achieve AE's qualifying scheme status, so they would have to be able to:

- provide an Independent Governance Committee (IGC);
- upgrade their contributions collection capabilities, if necessary (to be able to change with earnings, or stop when an employee leaves the employer);
- agree with employers the necessary AE-related employment safeguards (such as maintaining contributions at AE levels);
- facilitate the payment of tax relief into individual accounts (accommodating net pay and relief at source arrangements);
- monitor contributions are being paid correctly each month;
- provide an employer portal through which to receive a monthly data file from employers / payroll agents (many employers will have multiple employees using the same lifetime providers); and
- meet KYC requirements for each employee coming to them through AE.

WOULD THE EXISTENCE OF LIFETIME PROVIDERS RISK EMPLOYERS BECOMING COMPLETELY DISENFRANCHISED FROM THE ROLE OF PROVIDING PENSIONS?

It has been suggested that the very existence of lifetime providers would break the employer connection underpinning AE, but no evidence has been forthcoming to support this claim.

Employer "paternalism" is fuelled by objectives such as employee retention, maintaining a healthy workforce and upping skills levels through education and training. Yes, some benefits packages do feature generous pension contributions, but many employers do not use pension provision to evidence paternalism, as evidenced by the need to introduce automatic enrolment in 2012. Almost all employers have, of course, closed their defined benefit (DB) schemes, many have gone on to consolidate their defined contribution (DC) schemes into master trusts, and many now do nothing more than make the minimum mandatory (automatic enrolment) contributions.

[vii] Employers cannot (i) offer incentives to workers to opt out of their workplace pension; (ii) offer incentives to workers during recruitment or imply that a worker can only be employed if they opt out of their workplace pension; nor (iii) unfairly dismiss a worker because they stay in their workplace pension.

Similarly, many employees do not recognise any employer paternalism in their workplace pension arrangements. They give far more recognition to their ISAs and savings accounts than their pension providers. Indeed, many (most?) auto-enrolled employees do not even know who their workplace pension provider is.

To be clear, the introduction of member choice would not prevent employers from continuing to be as paternalistic as they wished to be. If it is accepted that, at retirement, having one pension pot rather than many is in their employees' best interest, a really paternalistic employer should be encouraging their employees to actively reduce their number of pots. Not to do so would evidence that an employer was not acting in their employees' best interests. Consequently, the introduction of lifetime providers (and consolidators) would present employers with an opportunity to build a stronger bond with their employees, not a weaker one as some critics have suggested.

The arrival of lifetime providers would certainly not distract employers from where their focus for developing employee benefits now lies; health and wellbeing.[viii] What *would* adversely impact the employer-employee relationship is an employer reducing their pension contributions simply because an employee had exercised member choice and left the workplace scheme for a different provider. Why would any employer risk the consequences of doing that?

Correspondingly, lifetime providers, who would be replacing employers as the main line of pensions communication, would have to ensure that the quality of their customer support meets their new customers' expectations.

WOULD THE PRESENCE OF LIFETIME PROVIDERS LEAD TO A RETAIL MARKET DOMINATED BY EXPENSIVE MARKETING, HIGHER CHARGES AND SCAMS?

Lifetime providers would be operating within a rigorously regulated arena (including the targeting of unscrupulous marketing). They would have to satisfy AE qualifying scheme criteria, including the provision of a default fund regulated and governed to the same standards as AE's workplace default funds, with charge cap protection. They would also have to comply with the FCA's Consumer Duty, a standard that (workplace) trust-based arrangements are not currently required to meet.[ix]

Furthermore, lifetime providers would have to adhere to the same (evolving) VFM Framework as for DC workplace pensions.[x] This is being deliberately designed to shift the focus from cost to longer-term overall value, based on investment return, services and member outcomes. In addition it aims to ensure transparency and delivery of VFM in the market.

[viii] Research by Buck and Reward & Employee Benefits Association (Reba), December 2023.

[ix] This will hopefully change, so that Consumer Duty would apply to all contract- and trust-based pension provision, including personal pension pots.

[x] In Spring 2024 the FCA will consult on detailed rules for a new VFM Framework.

WOULD FEES AND COSTS RISE IF LARGER CONTRIBUTORS WERE TO LEAVE THE WORKPLACE POOL FOR A LIFETIME PROVIDER?

We are not starting with a perfectly equitable framework for workplace pensions; a small number of larger schemes already enjoy advantageous pricing over the much larger number of smaller schemes.[xi] And the very existence of NEST evidences the inequality in the system; it would not have been created if the industry did not already “cherry pick” the larger, more attractive pots. After all, the industry is commercial; it is not a third sector participant.

In addition, moving to a more competitive market focused on retaining members for life can only be better for members; it could actually reduce fees. But bear in mind that providers are increasingly competing on other metrics, notably value and quality of service, rather than fees alone. This is especially the case for those with larger pots, many of whom see through the marketing patter; Hargreaves Lansdown, for example, was never the cheapest platform, yet succeeds in attracting new customers.

As for maximising a retirement income, what matters more than charges are (i) the size of contributions; (ii) the number of years of contributions; (iii) investment performance; and (iv) the method of decumulation (notably keeping part of the pot invested well into retirement, rather than entirely cashing out at retirement).

WHAT IMPACT WOULD LIFETIME PROVIDERS HAVE ON PENSION GAPS AND THE UNDER-PENSIONED?

The FCA has identified two categories of under-pensioned people; women and people from a minority ethnic background.[12] The underlying drivers of the gender pension gap are well known; it first appears amongst women aged 25 to 34 (when they are most likely to take a career break for parenting), and widens thereafter. Women tend to earn less and have shorter careers than men during their working lives, and they are likely to have fewer years of participation in a funded pension plan (automatic enrolment is slowly addressing this). In parallel, ethnic minorities are disproportionately represented amongst those with smaller incomes – leading to smaller pension pots. And compounded investment returns are smaller in small pots.

The OECD has made many policy recommendation to diminish the (gender) pension gap, but the structural one that stands out is the need to improve the portability of pension plans. It stresses the importance of avoiding multiple small pots “*which could result in higher overall fees, and impedes active engagement with retirement planning as it reduces the visibility of the future retirement income potential*”.[13]

[xi] TPR’s most recent annual DC trust statistics publication covers around 26,990 schemes, of which 25,700 (95%) have fewer than 12 members, with another 910 schemes with between 12 and 1,000 members. ‘DC Trust: Scheme Return Data 2022 to 2023’, The Pensions Regulator, accessed 5 February 2024, https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-scheme-return-data-2022-2023.

The OECD goes on to propose:

> *"a centralised institution managing the collection and payment of contributions of behalf of the given member to the pension fund of her choice...Another approach is to de-link the choice of provider from employment, so the individual can choose to which account all of her contributions are paid, as is done in Mexico".*

The OECD's second structural policy proposal of note is that *"plan fee structures should avoid charging fixed fees, particularly for small balances".*

Incidentally, the same OECD report shows that the gender pension gap in Australia is one of the lowest in the OECD – and that the UK is one of the highest.[14] This suggests that the structure of Australia's pensions arrangements is far more accommodating of women, in particular.

WOULD THE EXERCISE OF MEMBER CHOICE PLACE AN ADDITIONAL BURDEN ON EMPLOYERS?

A clearing house ("PensionClear", as described in a 2013 paper)[15] would play a pivotal role so that employers would not need to pay contributions to numerous employees' different lifetime providers. Instead, they would periodically send a single bulk file either directly to PensionClear or to their (third party) payroll provider, which would then liaise with PensionClear. PensionClear would then distribute ("parse") the employer and employee data and contributions to the appropriate lifetime providers.

It would be PensionClear's responsibility, not the employer's, to ensure that contributions went to the correct accounts at legitimate lifetime providers (employers would have to ensure that they capture the correct identifiers on payroll files). PensionClear would also coordinate the communication between employers (and/or payroll providers) and lifetime providers in respect of transfer confirmations, refunds, etc.

There is little evidence to suggest that any significant additional burdens would be placed on employer duties due to the existence of lifetime providers. To the extent that they materialise, they would only relate to a very limited number of employees, or concern only small pockets of the market. Single employer schemes may, for example, have to receive contributions from ex-employees, but such schemes are, in any event, rapidly disappearing through consolidation.

ONE CLEARING HOUSE OR MANY?

In a multiple clearing house market, each clearing house would have to connect with every employer (or their payroll provider): a "many to many" data communications network. A single clearing house would simplify this to a "many to one" network; PensionClear would drive the security processes, and facilitate the execution of transfers.

WHO WOULD OWN AND OPERATE PENSIONCLEAR?

PensionClear could operate as an industry-assembled not-for-profit trust, adhering to an ethos of public service. Alternatively, it could function as a private sector commercial entity, perhaps operating under contract from the DWP.

A range of different funding models should be considered, including a levy based on transaction volume, or membership dues for customers using the clearing house.

HOW WOULD PENSIONCLEAR OPERATE?

Today, a new employee gives their new employer their bank account details so that wages and salaries can be paid. In future, a new employee would, in addition, simply submit the name of their lifetime pension provider, along with their pot for life account details.

Consequently, a universal system for pension pot identification would have to be introduced, perhaps combining a lifetime provider sort code and employee pension pot account number. This arrangement would resemble today's payroll arrangements using Bacs, the UK's retail interbank payment system, owned and operated by Pay.UK.[xii]

In addition, an employee's National Insurance number or HMRC Unique Taxpayer Reference (UTR) 10-digit code, could provide the link to individual pension pots (both for contributions, and perhaps for directing payments of Income Tax relief into the appropriate pots).

HOW WOULD PENSIONCLEAR BE REGULATED?

Given its role in clearing, settling and recording of financial transactions, PensionClear should be subject to financial market infrastructure (FMI) supervision by the Bank of England. In addition, it should be overseen by an independent governing body.

WOULD PENSIONCLEAR INTERACT WITH THE PENSION DASHBOARD(S)?

Yes, ideally. If any pensions dashboard is to be of much value to the user, it would need to have *utility*, i.e. for users to be able to execute pension pot transfers through the dashboard, for the purposes of pot consolidation. Dashboards should prominently display each individual's pot for life, and therefore be able to communicate with PensionClear.

[xii] Pay.UK is responsible for direct debit, Bacs Direct Credit, the Current Account Switch Service, Cash ISA Transfer Service and the Industry Sort Code Directory. It is a not-for-profit company, supervised by the Bank of England's Financial Market Infrastructure Directorate (FMID) and regulated by the Payment Systems Regulator (PSR).

WHAT OF THE REGULATORY FRAMEWORK?

There is no consumer rationale to divide DC retirement savings between workplace and non-workplace (i.e. personal) pots. Combining them would be the purest form of pot consolidation, ideally accompanied by the merger of today's trust- and contract-based regulatory frameworks. A single regulatory framework should hold *all* pension pots to the same standards; why should it matter whether they are derived from the workplace or through personal provision?

SHOULD INCREASING THE LEVEL OF CONTRIBUTIONS TAKE PRIORITY OVER INTRODUCING LIFETIME PROVIDERS?

It is acknowledged that AE's current minimum level of contributions needs to be higher if people's retirement income aspirations are to be met. However, the lower earnings threshold used in determining AE contributions is set to be removed[xiii] so that AE's minimum contribution will become 8% of *total* income, not 8% of band earnings.[xiv] Consequently, low earning employees in particular will see their minimum contributions of 4% of qualifying earnings increase *substantially* this year:

Table 1: Illustrative impact of removing lower earnings threshold on auto-enrolment contributions

Annual income	2022-34	2023-24	Increase
£15,000	£344	£600	74%
£20,000	£544	£800	47%
£25,000	£744	£1,000	34%

Source: author's calculations

It is unrealistic to expect low earners to further increase their contributions in the near term; indeed, it risks a dramatic increase in opt out rates, leaving many people contributing nothing...and then missing out on their employer's contributions.

WHAT LEGISLATIVE STEPS WOULD BE REQUIRED TO FACILITATE LIFETIME PROVIDERS?

Most of the changes needed to implement phase one could be introduced using secondary legislation. However, there are certain elements that would need some relatively straightforward primary "enabling" legislation. Given that a Pensions Bill is not expected before the next election, this enabling legislation, which would not need to be particularly lengthy or detailed, could be introduced via a short Private Member's Bill (which could be expected to receive government support).

[xiii] The Pensions (Extension of Automatic Enrolment) bill received Royal Assent in September 2023.

[xiv] Capped at the upper earnings limit, £50,270.

WHAT BECAME OF 'POT FOLLOWS MEMBER'?

"Pot follows member" (PFM) was proposed (2013) as a way of automatically transferring deferred pension pots to the new employer's scheme when a person changes jobs (with the right to opt out). The project was rightly curtailed in 2015, not least because PFM would deny the employee any choice of provider, and it would require an (admin expensive) pot transfer with *each* change of employer, an issue avoided by having a single aggregator for life.[16] In addition, PFM would have been anti-competitive because it would have entrenched the market position of the traditional workplace pension scheme providers.

Aggregation has subsequently been developed as the "lifetime provider" model, which will open up the market to include those providers which have not historically participated in the workplace arena, notably the retail-focused platforms.

WHY WAS THERE SOME INSTANT OPPOSITION TO THE LIFETIME PROVIDER MODEL?

Some industry providers are exhibiting a classic response to (the prospect of) unexpected change upsetting the status quo. High (emotional) energy, fuelled by business interests, is obscuring the fact that, for the individual employee, a single pot for life makes common sense.[xv] The industry needs to give itself time to logically think through the business implications and spot the new opportunities.

IMPLEMENTATION: WHAT COULD THE ROADMAP LOOK LIKE?

The DWP first needs to determine whether it has the operational capacity to manage several large projects simultaneously, including DC consolidators, lifetime providers and the dashboard.

One approach could be to repurpose the dashboard as the tool to drive both the consolidators and lifetime providers. Alternatively, it could be side-lined in favour of first getting a few (five?) DC consolidators operational (the largest five master trusts already have more than 75% of scheme members between them). This would help develop a sense of progress (the dashboard timeframe is unclear) and lead to a dramatically reduced number of both the providers needing to connect to dashboard, and the volume of pot transfers…which could reduce the amount of development work still to be done for the dashboard.

Whatever the implementation roadmap, little will happen without a clearing house. In parallel, there are several distinct lifetime provider work streams to be getting on with, including:

- determining exactly how a default would operate (so that an individual's chosen lifetime provider would become their default arrangement);

[xv] This is an example of Stage 1 of the Change Cycle: fear of loss, and paralysed, resistant behaviour.

- amending the existing AE legislation to accommodate lifetime providers (stipulating that they must meet the AE qualifying scheme criteria);
- writing the enabling legislation to place new obligations on employers to implement an individual's choice (notably in respect of payroll arrangements), and to require them to make the same contribution rates available to workers who choose a provider other than their employer's existing AE scheme;
- establishing an accreditation regime for lifetime providers, to include, for example, that they must be an AE qualifying scheme able to accept contributions from individuals who choose them, and to require them to give employers assurance that they are making contributions to a qualifying scheme (to minimise the additional administrative or governance burden on employers); and
- preparing the governance and regulatory frameworks for the clearing house.

CONCLUSION

The lifetime provider development would be an enhancement to, and natural evolution of, the auto-enrolment regime, providing a rare policy "win-win-win". Not only would it accelerate the reduction in the number of small, deferred pots, and therefore the number of future transfers and lost pots, but it would present employees with an opportunity to exercise greater control over their workplace-derived savings.

Lifetime providers would offer the best of both worlds: effective defaults where they are needed and individual choice to promote personal agency and engagement. Not to proceed with them would deny to younger generations, in particular, the agency that they expect. Lifetime providers would serve as a mechanism to encourage more people to engage with their retirement savings, which would incentivise providers to treat them as individuals rather than anonymous members of workplace schemes. Ultimately, they provide a significant stepping stone towards a single (pensions) pot for life, facilitated by common sense and digital capability. Simplicity to the fore.

ENDNOTES

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[12] 'Advice Guidance Boundary Review – Proposals for Closing the Advice Gap' (HM Treasury & FCA, December 2023), https://www.fca.org.uk/publication/discussion/dp23-5.pdf.

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[16] Johnson.