Up for grabs? Public attitudes on the pensions 'pot-for-life' proposal

BRIEFING PAPER

April 2024

SMF Social Market Foundation

By Niamh O Regan, Researcher

The SMF recently published proposals for 'member choice' over pensions, whereby individuals can direct their contributions to a scheme of their choice. Meanwhile, the government is consulting on related proposals for a 'lifetime provider' model. This paper presents evidence on public attitudes to these proposals, drawing on a survey of workers, and two expert roundtable discussions on the topic.

SUMMARY

- Among various issues in the UK pensions market, there is a deluge of small pots created as people move between jobs, as well as broader issues of adequacy and awareness.
    - Government plans to consolidate schemes will help to reduce the number of existing pots, but it will not stop new pots from being created.
- 'Member choice' could help stop the proliferation of small pots, and has the potential to empower savers and boost engagement.
    - Employees would tell their employers where to send their pension contributions, rather than starting anew with each career move.
- The public wants the option of member choice: our survey found that 72% of respondents are in favour of the idea.
    - Those with higher levels of educational attainment, and existing pensions engagement, are more likely to be in favour, but the measure has majority support across all demographics.
    - This is not just about convenience – people are as likely to say they are motivated by value for money as consolidating pensions.
    - Concerns that member choice will undermine the role of employers in supporting their workers may be overstated: 48% would not miss the pensions information they get through their employer, and an additional 22% don't even receive any as it is.
- However, most people want the *option* of choice rather than wanting to actually exercise that right
    - Only 28% of survey respondents said they would actually use member choice and choose a different pension provider than their employer's.
- Member choice might prompt some increased engagement, but we should not expect too much
    - 63% of respondents said member choice would make them engage more with their pension, and 41% thought they would increase their contributions.
    - However, 67% like their employer handling their pension for them, and 48% do not think they need to actively manage their pension.

FOREWORD

With the value for money framework, small pots consolidators, and pensions dashboards, it's safe to say that workplace pensions are undergoing massive change. Despite appearing disparate – with each initiative solving a specific issue – collectively, they will improve member outcomes. This is good for us all.

However, the perennial challenge remains: how do we engage people with their pension? The answer matters because it has a massive impact on outcomes.

An engaged saver is likely to pay more into their pension and make better retirement decisions. Engaged savers are rare though. Most people have a passive relationship with their workplace pension – their employer chooses a provider, sets the monthly contribution levels, decides how the money is invested and their retirement age is automatically set. Worryingly, most savers never move from these defaults.

Although inertia has been the biggest success factor of auto-enrolment (millions more people saving for retirement without ever engaging in the process), it is also its Achilles' heel. Millions more may be saving, but they are not saving enough and, as people move jobs more frequently, they are accumulating multiple, small pots with each new employer.

Out of these problems developed the "pot for life" concept. A pot for life is one pension that follows an employee as they move jobs – just as they would provide a new employer with their bank details during onboarding, they would also say where they would like their pension contributions to be paid.

A pot for life should go some way to improve engagement by giving savers a sense of ownership over one of their biggest financial assets – with all their money visible in one place, this larger, single pot should retain their attention.

It should encourage them to ensure their contributions match the living standards they want in retirement. It provides employers with the recognition they don't currently get for making such large financial contributions to their staff's future. It will end the problem of multiple pots and lost pots.

Importantly, it corrects a structural problem with workplace pensions, where the buyer (the employer) and the consumer (the employee) are not the same. The result is an industry competing on the wrong things. We have forgotten who the real customer is – the employee, not the employer. It will force us to compete on retirement outcomes for savers, instead of costs which is more of a focus for employers.

It will demand that we invest money in a way that aligns with the values of savers who want to know that their pension is doing good in the world, not causing damage. It will see the emergence of a retail market where we compete on the right things – value and better outcomes.

It's not without its challenges, and this report outlines the well-intentioned arguments in favour of the status quo and the necessary instruments that must be implemented to make any change effective.

At Cushon, we support the trajectory towards a pot for life, but as with any major change in the pensions industry, it's important that thoughts and concerns from all sides are properly considered and addressed, and that the required foundations are put in place to minimise any unintended consequences and ensure the concept succeeds.

Steve Watson

Director of Policy & Research, Cushon

THE GOVERNMENT HAS RECOGNISED THAT WORKPLACE PENSIONS ARE IN NEED OF REFORM

The current pensions system is not working, especially for employees

More people than ever are now saving into a private pension. In 2012, 42% of private sector employees were saving into a private pension. By 2022, 86% were.[1] This has largely been down to the introduction of automatic enrolment in the early 2010s. The policy brought almost 11 million employees into workplace pension schemes over its first ten years.[2]

While it has brought more people into the pensions fold, automatic enrolment is not without its problems. Key among these is the issue of small pots. Workplace pensions were initially conceived when employees had a single employer for the majority of their life, but workplace practises have now changed.[34] Over the 12 years since auto-enrolment started, many employees have changed jobs, and with every job change, have acquired a new pension pot. Current employees are expected to accumulate an average of ten pension pots across their life.[5] These fragmented pots do not have as much chance to grow, and are easily forgotten.

There are currently over 12 million of these small pots (defined as worth less than £1,000), a number that is set to continue to grow if the issue is not resolved, not least because auto-enrolment has now been expanded to younger age groups and lower earnings thresholds.[6] Moreover, there are around three million lost pots. In 2022 the Pensions Policy Institute estimated that the total value of these lost pots was over £26 billion, and expect this to continue to grow.[7] The owners of these pots miss out on the money that is rightfully theirs, in a retirement that is not as rich as it might have been, had they had a single pension for their working life.

> *"I think we do need to say, who does the system work well for currently? It works well, if you work in a really big employer. Absolutely. It works well if you just have three or four big employers all of your life. You know what your pots are, you're sorted. It doesn't work well, if you move more frequently. It doesn't work well, if you work for a smaller employer that's unlikely to understand that 8% [of income contributed] isn't enough"*
>
> **~ a pensions provider**

A second, and related, issue is adequacy. For the most part auto-enrolment pensions are part of defined contribution (DC) schemes, (rather than defined benefit (DB) schemes). In these schemes participants contribute a fixed portion of their salary each month to their pension pot. There is a minimum total contribution level of 8% of earnings. Employers must contribute at least 3%[i], with the remainder made up by the employee (the scheme member), and government tax relief. However it is widely agreed that this level of contribution is unlikely to be enough for today's members to live on in retirement.[8] The Pensions and Lifetime Savings Association for instance, advocate for minimum contributions of 12%.[9] This situation can be addressed through higher contributions (either by raising the auto-enrolment default or individual voluntary increases), or by generating higher returns.

Consolidation can help to deal with the small pots we already have

As outlined in the previous SMF report, *Member choice, to complement small pots' consolidation*, the creation of many new small and ultimately deferred, pots was not unforeseen. When pension reforms were introduced in the late 2000s, it was accepted that automatic enrolment would lead to the creation of multiple pension pots for an individual, and a mechanism would be needed at some stage to ameliorate it.[10]

The government has decided that now is the time to act. In January 2023 it launched a call for evidence on the development of automated consolidation solutions for pensions. One proposed model was "pot follows member" where when an employee leaves a job, their previous pot comes with them and merges into their new employer's scheme.[11] The other was a default consolidator model, where eligible deferred pots would automatically transfer to a consolidator.[12] By July 2023 the government had decided on the default consolidator model and proceeded to launch a public consultation to gather views on how a default consolidator might work.[13] In November 2023, during the Autumn Statement, the government announced it would proceed with a default multiple consolidator model. This would allow a number of authorised schemes to consolidate existing small pensions pots.

A model of member choice can help to prevent the creation of future small pots, and stimulate greater engagement with savings

Consolidation is a welcome move, and will help to reduce the number of small deferred pots. It does not however prevent millions of new pots being created, as employees continue to move from job to job.

This has not been lost on policymakers. The 2023 Autumn Statement announced another call for evidence on pensions, this time looking to the long-term vision for workplace pensions, and the possibility of introducing a lifetime provider model.[14] A lifetime provider model, where all pension contributions are in a single pot, would provide a more valuable asset, less admin for members and the Department for Work and Pensions argues, would make decision making at the point of access easier.[15]

[i] Employers can have a higher contribution, but this is at their discretion

What this should look like however is still up for debate. In December 2023, the SMF set out a proposal for a “member choice” model.[16] Fundamentally, a system of member choice would mean that savers would choose the scheme and provider where their pension contributions are paid.[17] Moving to this type of model would give them ownership over their pots much earlier than the current system. This, in turn, could increase engagement and encourage pension providers to offer better service and personalisation. In particular, member choice could shift the attention of pension providers and their offering away from the employer, and on to their true consumer, the member of the pension scheme, resulting in better value for money.[18]

The proposal laid out some details for how a member pot would work practically. Eligible schemes could include master trusts, life companies’, Self Invested Private Pensions and Group Personal Pensions. Member choice could be phased in, initially by introducing a right to choose, which could be done under the existing Pensions Act. The second phase would be to make member choice the default. Instead of automatically enrolling new hires in their new employer’s pension scheme, this would shift the default such that employers would be required to enrol workers on a scheme of the employee’s choosing. Just as employees nominate a bank account to have their salary paid into, they would do the same for their pension scheme.

For it to be successful, those who exercise their choice and move to a different provider should still enjoy the benefits and safeguards as those remaining in the employer’s scheme. Member choice would also require the creation of a clearing house to direct these pension contributions without creating an additional employer burden.[19]

Some in the pensions industry have reservations about member choice

Enthusiasm for member choice has been far from universal. While most in the industry will acknowledge that it seems a good idea in theory, many are concerned that it will have unintended consequences. Some worry about the mechanics of member choice for those that do not choose a pension provider.

> *“I would very much doubt if my son would have a clue what to do.”*
>
> **~ policymaker**

Fortunately, this is relatively easily solved. The proposal for member choice is exactly that: a choice, not an obligation. As outlined in the previous section, the first phase of member choice would empower those who do want to choose their pension provider, to be able to do so, easily, by giving them the right to request their automatic enrolment contributions are sent to a provider of their choice. In the second phase those who do not want to choose, or have not chosen will continue to be automatically enrolled onto a scheme, much in the same way that automatic enrolment works now.[20]

A more significant qualm concerns the possibility of negative outcomes for some in the market. For the members who have not chosen or nominated a scheme, or those who may be less aware of and familiar with the pensions market, what would ensure that the scheme they were enrolled in provided good value for money?

"How do they [low earners] choose? Will the market be interested? No. If this is bad news for the average earner or the lower earner, I don't like it"

~ pensions expert

A particular concern was that employees may be affected by "first scheme capture". That is, people would be "stuck" with the pension scheme that is for example, the default in their first job which may well be lower paying, and as such they could be left in scheme which is less good.

"as we've seen in bank accounts, people go to their first bank account, and they stick with it, irrespective of what they might do subsequent to that"

~ pensions expert

"we have an oversized catering market, because everybody's got their first job at the cafe or whatever else. And then that sector has an enormous amount of people captured disproportionate to working in these jobs down the line"

~ industry association representative

Related to this is a concern that a move to member choice would be detrimental to those on lower incomes, as the pensions market would focus primarily on catering to those on larger incomes.

"Move to this model and the top earners...are cherry picked, they go off... your mid-earning, low-earning, part-time worker is now offered an arrangement in the workplace that is less good, because it's not subsidized by the higher ups"

~ pensions expert

"You also find that people do not switch pensions in order to chase the highest return, to induce that pressure on providers to deliver"

~ pensions expert

At the same time other attendees felt that members would suffer from higher fees and increased costs, reflecting the need for greater marketing investment in a consumerised market:

"you're going to be paying potentially through the nose for additional marketing costs for admin for levies, all of that falls on a consumer"

~ industry association representative

Many of these concerns can be mitigated by other features and changes in the pensions landscape. Firstly, the fiduciary duty of a pensions provider does not change depending on the income of the saver. Secondly, a move to member choice would follow the full implementation of the charge cap, the Financial Conduct Authority (FCA) Consumer Duty and the Value for Money Framework, which places obligations on providers to secure the best outcomes for members.[21]

These objections to member choice also risk glossing over the problems of the status quo. It is far from obvious that pension savers currently achieve great outcomes, and even less clear that they receive good service. Member choice brings the potential of a more competitive market, and a better deal even for the least engaged. As one advocate of the change put it:

> *"we've got a massively fragmented market... everything needs to be consolidated and distilled down. And that will happen through some of the initiatives that are already in training today. So if you then fast forward to five or 10 years from now, when we are in a position to start implementing, what you end up with is a much smaller ecosystem of pension providers regulated through things like consumer duty, through value for money to ensure they're all giving their customers value for money. And in that world those [low earning] employees doesn't matter where they end up they'll always been a good value pension,."*
>
> **~ pensions expert**

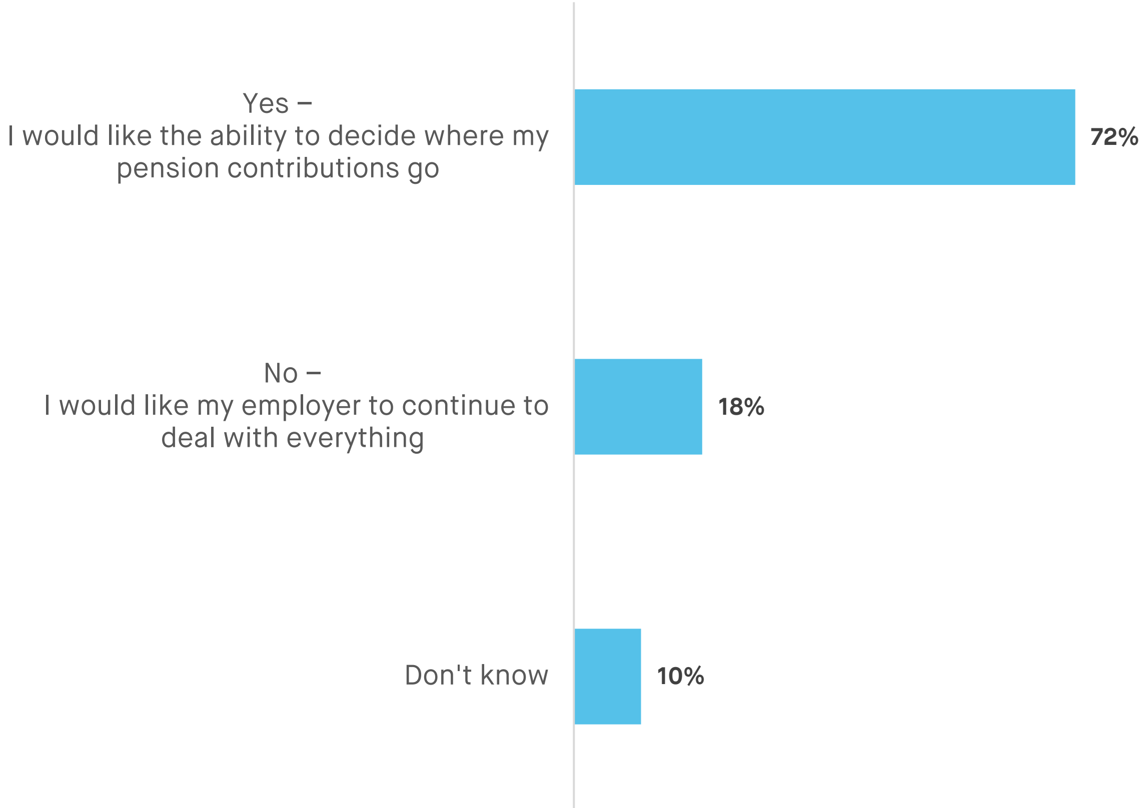
THE PUBLIC FEEL MOSTLY POSITIVE ABOUT MEMBER CHOICE LED PENSIONS

To understand how the public would feel about a prospective move to member choice, we conducted a public survey of 1,618 people in January 2024, using the survey platform Focal Data. All respondents were members of DC pension schemes. The sample erred slightly younger and slightly higher educated than the national average.

By and large the public like the *idea* of member choice

In the current pensions system, after negotiations with providers, the employer decides which provider and pension fund its employees' pension contributions go to. Member choice would change this so that the employee tells their employer which provider they would like their contributions to go to. When surveyed on this prospect, 72% said they would be in favour of such a move (see Figure 1). This is not wholly surprising, as when asking people if they would like to have greater control over what may be their most significant financial asset, it would be more surprising if they said no.

Figure 1: Whether respondents would be in favour of a change to a system of member choice



Source: SMF analysis of Focal Data survey January 2024

This may be reflective of changing attitudes towards pensions. Support for member choice was notably higher among those under 45, with this preference declining as age increased. Support was strongest among 25-34 year olds, 78% of whom would like the ability to decide where their contributions go, and lowest among those over 65, only 43% of whom were in favour of a change. Some roundtable attendees felt that a move to members having greater agency over their pension pots was almost an inevitability, owing to generational differences.

> *"The younger generations are going to demand a voice. It's part of their culture"*
>
> **~ financial services expert**

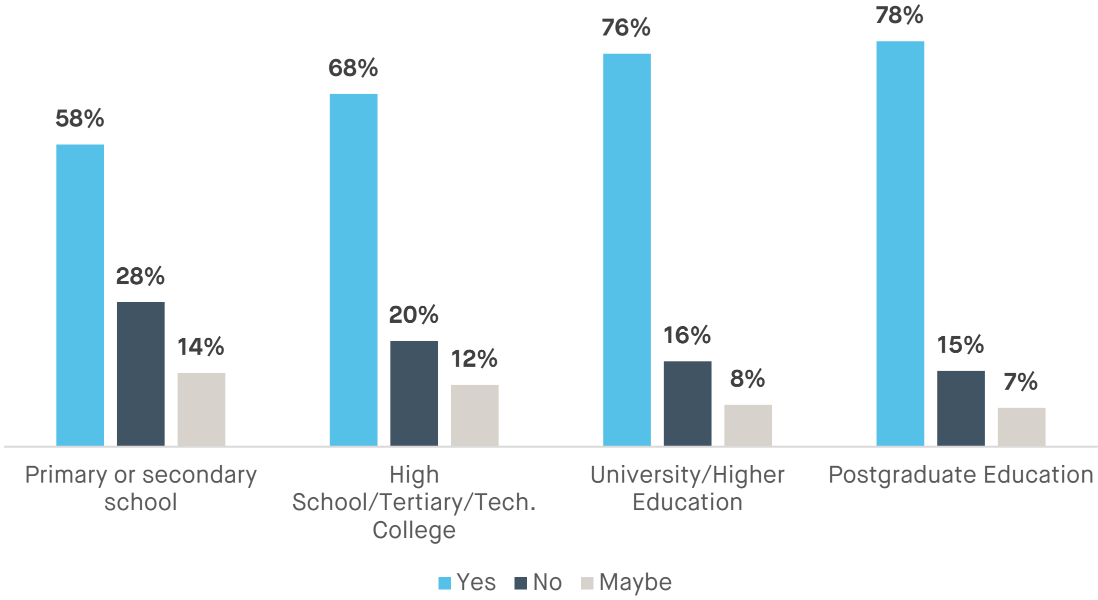
This perspective was also shared by an employer, who found that younger employees were more likely to ask about the pension scheme and benefits when weighing up whether or not they would take a job.

> *"the people hired in the last ten or so years, they're coming in [to the business] much more caring about their pension, where it's invested, what their options are, there was a generation or two generations above that, where they kind of went well [employer name removed] is a great employer. I'm sure it will be alright, I'm sure I'm in a good pension and they kind of relied on how we run the business to look after them on pensions. But there's a younger generation that definitely say, well hang on what are my pension options, where are they going... A lot of people are now saying, Yep, pensions really important part of my employee value proposition"*
>
> **~ employer representative**

Member choice enjoys strong support across all levels of educational attainment and existing pensions engagement

Member choice is not just popular on aggregate, but retains support across a range of groups when we dig in to the characteristics of the survey respondents a little more. Survey responses show that there is a slight education premium: those with higher qualifications are more inclined to support a system of member choice.

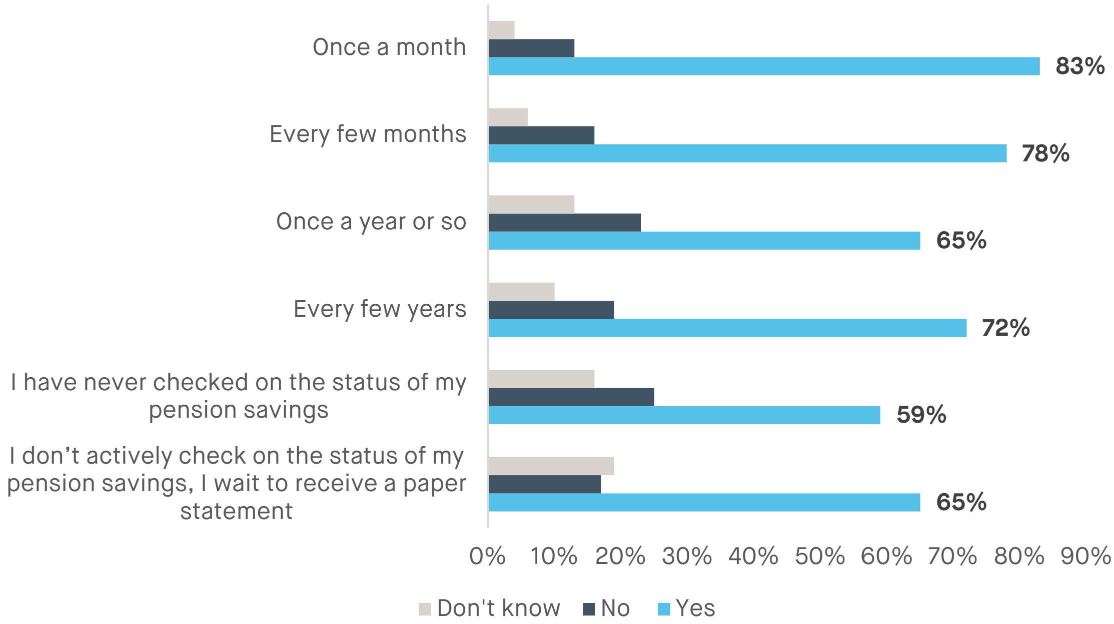
Figure 2: Whether respondent would switch to a model of member choice by highest level of education attained



Source: SMF analysis of Focal Data survey January 2024

There is also slight engagement premium when it comes to support for a member choice model (see Figure 3). Those who more regularly check on the status of their pension are more in favour than those who do not check regularly, but even among those who only check once a year or who say they have never engaged with their pension, the base who support a member choice model is still quite strong.

Figure 3: Whether respondents would be in favour of a change to a system of member choice, by level of engagement with pensions



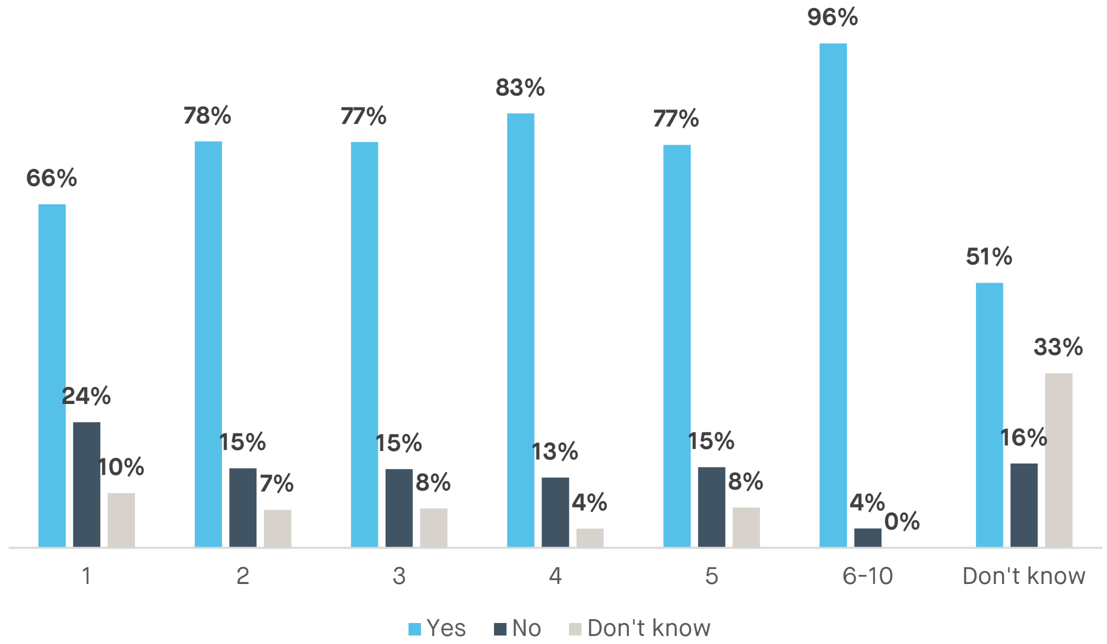
Source: SMF analysis of Focal Data survey January 2024

The slight engagement premium is not particularly surprising. Those who are already very engaged with their pension may be more inclined to want greater control over their contributions. The rate of support among those who are currently less engaged, with a clear majority in favour of the change, is slightly more surprising.

A pot for life is not just about convenience

Given one of the reasons behind member choice is to complement the consolidation of the small pots, it is also hardly surprising that those who have the largest number of pension pots are also the most in favour of moving to a pot for life model under member choice (Figure 4). Almost everybody we surveyed (96%) with over five pots would prefer a system of member choice. However, even among those who have not yet accumulated multiple pots, a majority would also favour such a move.

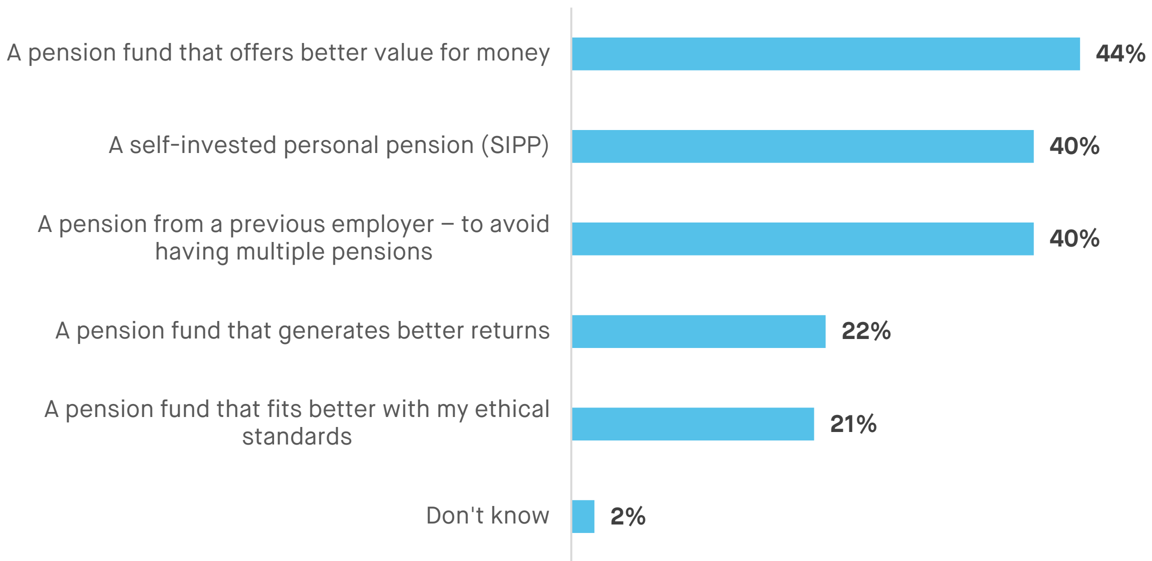
Figure 4: Whether respondents would favour a move to a model of member choice, by number of pension pots held



Source: SMF analysis of Focal Data survey January 2024

This requires little explanation. However, moving to a model of member choice does not just seem to be about convenience to the member. The most convenient option arguably, would be to choose to invest a pension into the same pot as a previous one. When we asked those who would switch to an alternative, that was not the most popular option. As shown in Figure 5, many employees feel they could make a better decision than their current employer on where their contributions would go.

Figure 5: Where respondents would prefer to pay their pension contributions, if not to their default employer fund



Source: SMF analysis of Focal Data survey January 2024

While 40% would integrate their pension with a previous employers', 44% said that they would actively seek out a pension fund that offers better value for money, and 40% a SIPP. A significant minority – around one in five – say that they would prioritise better returns or a more ethical pension fund.

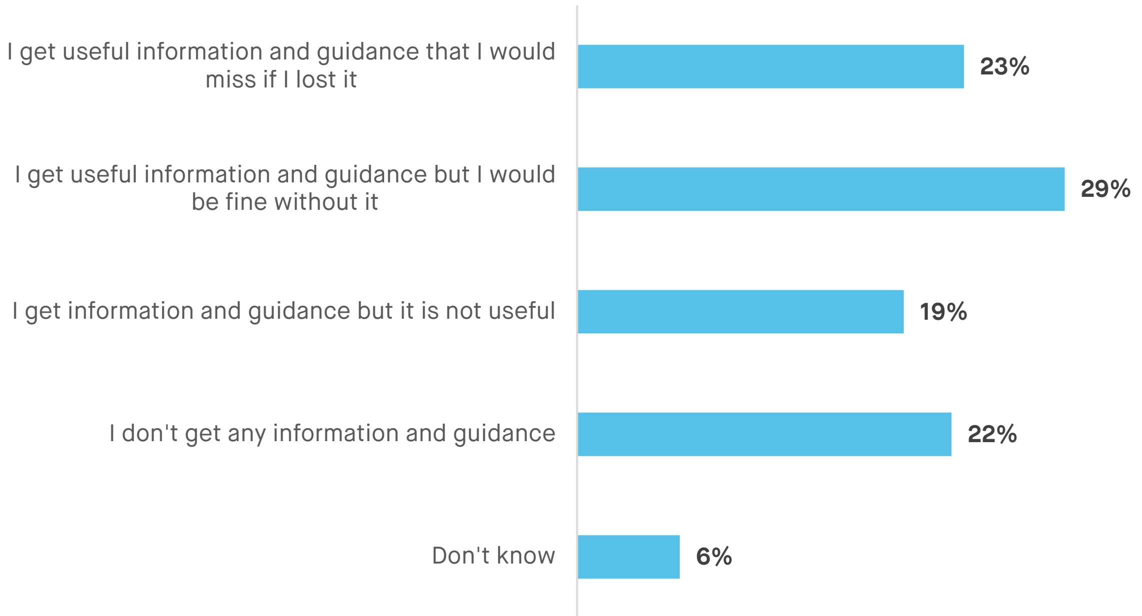
And choice remains popular, even when presented with some of the trade-offs

At the moment, we have a pension system that is largely premised on paternalism – putting little responsibility on the individual saver, and expecting employers to take care of them. A fear some people have about reforms like member choice is that it will disturb this dynamic, limiting employer help and support and leaving individuals to fend for themselves. For example, if employers no longer feel responsible for their workers' pensions, they may offer less information and guidance:

> *"If we do end up [with member choice] we need to we need to think about the downsides. And be very clear about them. One it is that you do lose employees and employer engagement, and that comes with a big cost"*
>
> **~ pensions industry representative**

This concern however may be a slightly misplaced. As shown in Figure 6, only a quarter of respondents are worried about losing employer information and guidance on pensions. Two-fifths (41%) of survey respondents said that they didn't get any information and guidance on pensions from their employer, or if they did, it was not useful. Almost a third said that while the information and guidance they received was useful, they would not miss it if it was gone.

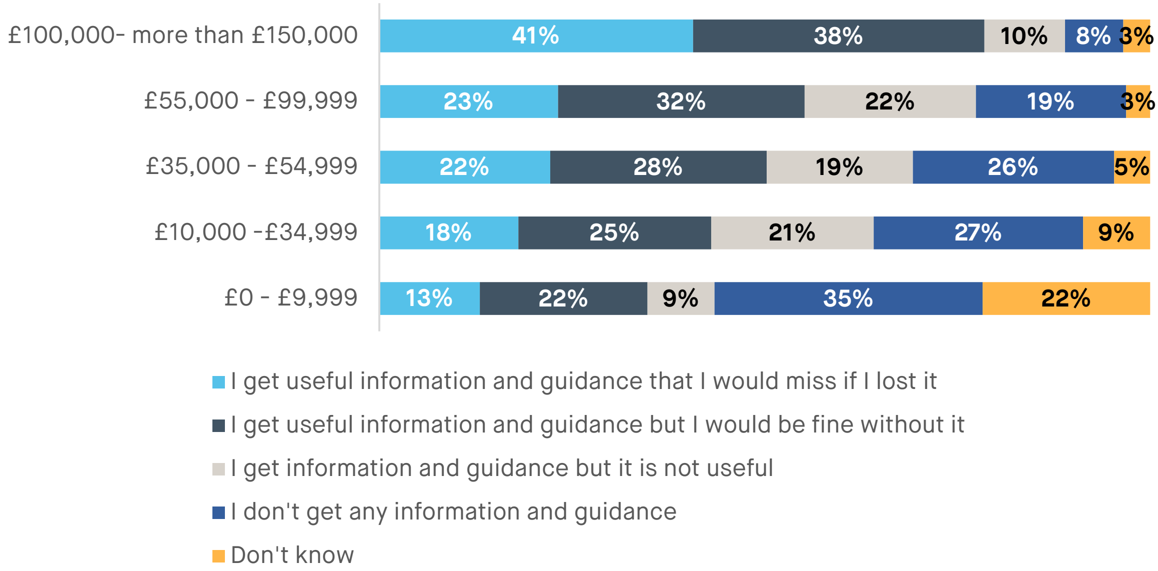
Figure 6: The extent to which respondents receive useful information and guidance on pension saving and management from their employer or pension provider



Source: SMF analysis of Focal Data survey January 2024

Perhaps most interestingly, how respondents felt about the information and guidance they received varied significantly by income. Part of the concern around the removal of paternalism is that those on lower incomes would suffer the most from a change in model. Our survey findings contradict this slightly. Those on the lowest household incomes are most likely to not have received any guidance, or have felt that the information and guidance they receive on pensions was not useful (Figure 7).

Figure 7: The extent to which respondents receive useful information and guidance on pension saving and management from their employer or pension provider, by household income



Source: SMF analysis of Focal Data survey January 2024

On the loss of paternalism. one roundtable attendee highlighted that while member choice would mean the employer is less involved in securing their workforce's pension arrangements, this would not necessarily mean the employer would have to stop providing information and support. This would still be at the discretion of the employer, much in the way it is now.

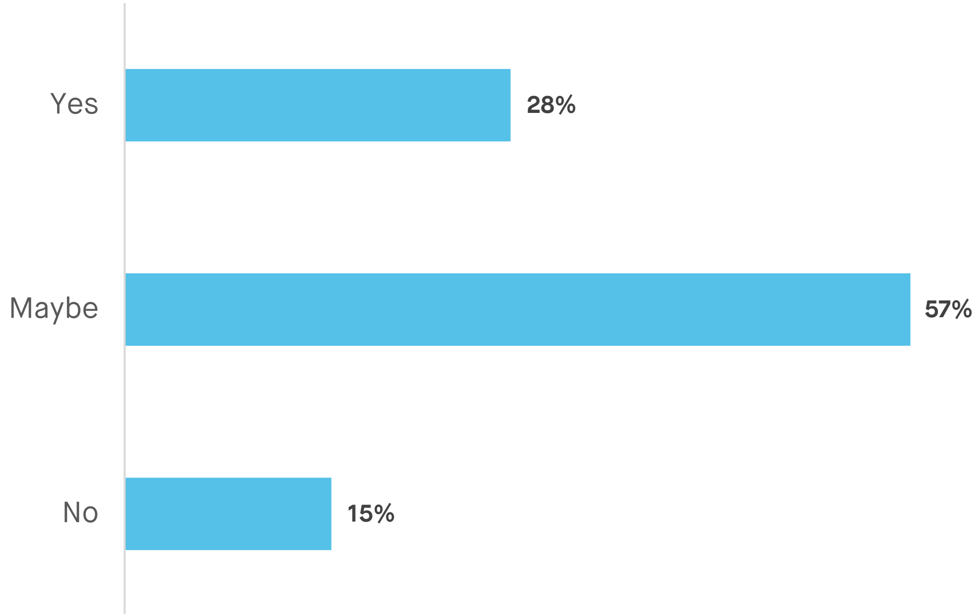
> *"In a world of lifetime providers and consolidators there is absolutely nothing to prevent employers continuing to be as paternalistic as they like. It's up to them."*
>
> **~ pensions researcher**

We can see this with the provision of other employee benefits, such as gym membership, health or life insurance and financial advice. These are not provided directly by the employer, but because they help to meet employee needs, and as such, is good for recruitment and retention.[22]

However, while people want the freedom of choosing their pension provider, few would actually exercise that right

Wanting control and the right to choose a different pension pot is different to actually using that control. Our survey respondents were much less likely to say they would *exercise* the right to choose their pension provider than say they wanted it. A little over a quarter (28%) said they would actually use the right to switch provider if they had it, and a much larger contingent are unsure whether they would or not, as shown in Figure 8.

Figure 8: Whether respondents would choose to pay your pension contributions to another pension scheme than the one your employer uses?



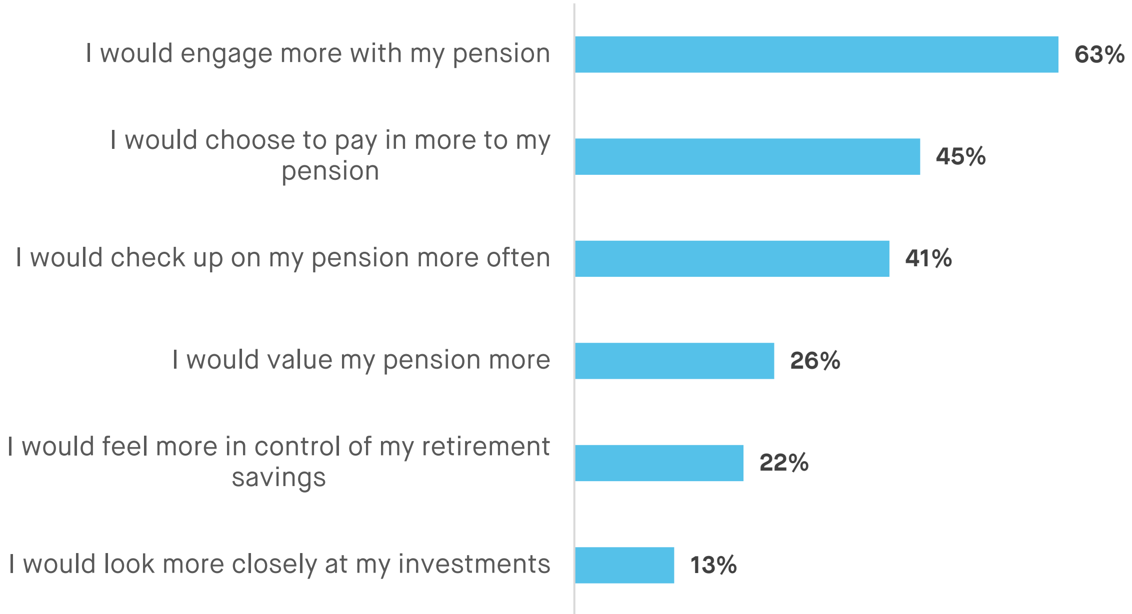
Source: SMF analysis of Focal Data survey January 2024

Member choice might drive more engagement, but we shouldn't expect too much too soon

The main aim of member choice is to build on consolidation, and helping to reduce the proliferation of deferred and lost pension pots. Another potential benefit, though, is that over time with more of a say in what happens to their pension, and only one pension pot to manage, it could drive up engagement among members.[23] Greater engagement with a pension could itself mean members increase their pension contributions, helping to address the issue of pension adequacy. The impact on engagement therefore is something we wanted to interrogate in more detail in our survey.

Survey responses largely support the idea that member choice could increase engagement. Of those who would choose an alternative to their current employer's pension provider, many feel it would make a difference to how they would feel about saving for retirement. As shown in Figure 9, almost two-thirds (63%) said they would engage more with their pension, while 45% said they would choose to pay more into their pension. Two-fifths (41%) would check up on their pension more often. This in itself could lead to a knock on effect, such as increasing pension contributions.

Figure 9: Whether respondents think choosing their own pension would make a difference to how they feel about saving for retirement



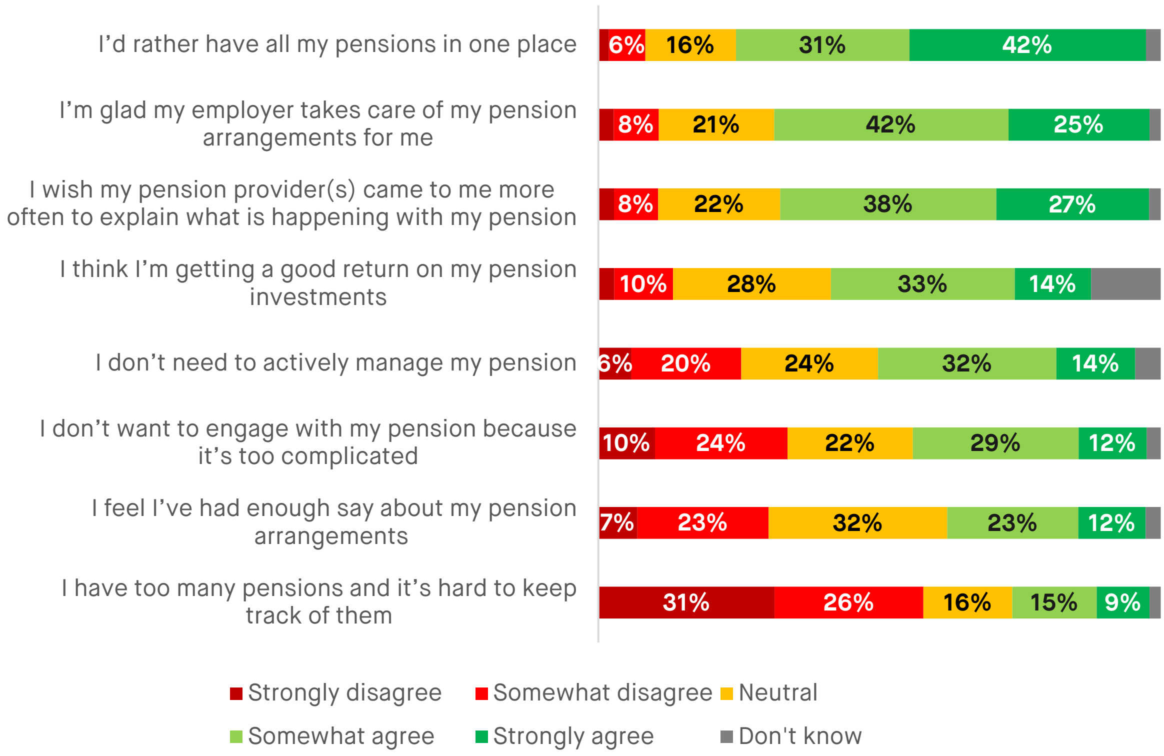
Source: SMF analysis of Focal Data survey January 2024

These responses should be treated with some caution, however. Firstly, as this question was directed only at those who would actively opt for member choice, we do not know how it would affect the engagement of others who may be given that choice by default. A higher rate of knowledge and engagement around pensions even before a change in system or efforts to stimulate further engagement means the impact on engagement might not be reflective of the whole population.

Additionally, while these hypothetical responses are the best guide we have to indicate how people would respond to member choice, people may not be able to accurately predict their own behaviour in reality.

The survey also highlighted other priorities that savers have for their pensions that conflict with increasing engagement (Figure 10). Two-thirds (67%) of respondents were glad that their employer takes care of their pension arrangements for them and 46% feel they don't need to actively manage their pensions.

Figure 10: Extent to which survey respondents agreed with the following statements



Source: SMF analysis of Focal Data survey January 2024

On the other hand, respondents did want more information about and say in their pensions. Almost three-quarters (74%) would prefer to have all their pensions in one place, two-fifths (41%) did not want to engage with their current pension because it is too complicated and only 34% agreed that they had had enough say over their pension arrangements.

There is also ambivalence within the industry as to whether greater engagement with pensions is a good thing

The effect of member choice on engagement was also a key talking point at our expert roundtables. Attendees were split not just as to whether the change would in fact increase engagement, but also on whether increasing engagement is even desirable.

Advocates were keen to emphasise that engagement is not the primary aim of member choice, and that member choice is only likely to modestly improve – not transform – engagement. However it could be fruitful for those who are already somewhat engaged, and could over time spur broader cultural change.

Some felt that member choice and the increased level of engagement would be almost inevitable for younger generations.

> *"Over time, I can't see any support for the proposition that people don't have any agency over their largest financial asset.*
>
> **~ financial services expert**

Others however were more sceptical as to whether heightened engagement would actually deliver benefits for members. They may, for instance, be more aware of what was going on with their pension and check on it more frequently, but would they enjoy better outcomes?

> *"I'm still not convinced it will solve the engagement dilemma. The one thing we need to focus on is adequacy. Will it actually drive out a better return?"*
>
> **~ pensions provider**

There was some concern that an increase in engagement itself may not be desirable. Some worried that a more engaged population might take greater advantage of pension freedoms, and end up drawing down on too much of their pension as soon as they are allowed to do so, at age 55.

> *"[with] pension freedoms, we're now seeing more and more people taking out all their money much more quickly, and in their 50s... if engagement means I'm going to take all my money out, by the time I'm fifty six, carry on working, and do all these other things, well, I'm sorry, I want to qualify your engagement, "*
>
> **~ policymaker**

Another pointed out, however, that as it stands at age 55 savers face "a cliff edge". People are given the freedom to draw down on their pension but they are given little support and advice, from employers or pension providers, with which to make that decision.

Some attendees were worried about disrupting the elements of the current system that work well. Automatic enrolment has successfully harnessed inertia, and as such, depends on a lack of engagement. Many roundtable attendees were concerned about upsetting this balance:

> *"inertia works. So you've got to be very careful that whatever you do doesn't upset that because it's so powerful and so successful"*
>
> **~ policymaker**
>
> *"I think the inertia thing is a really good analysis of what suits mostly young people... If you rattle the cage, sometimes, you know you do get unintended consequences out of that. I don't think that would sit well with me, because you know, it has always got to be about the person who's putting their money into that pension and about what makes things tidy for organisations."*
>
> **~ policymaker**

While member choice would be a significant change from the status quo, it does not mean it would remove the parts of the current system that are working well. Member choice will continue to use the success of inertia, where people don't (or don't want to), make a choice.

> *"the question is, to what extent can defaults play a role that end up in the economic interests of the individual, for example, by having one pot rather than ten?"*
>
> **~ pensions researcher**

Part of the reason why measures like this matter, and are the subject of such debate is because policymakers continue to send mixed signals on the importance and inevitability of engagement. The current system of automatic enrolment has been successful at dramatically increasing the number of pensioned people precisely because of inertia. Yet DC schemes do not achieve their best outcomes on inertia alone. For DC pensions, the more you put in the more you get out, and so it pays to be more engaged. But it is up to the employee, not the employer to make that choice. This is not translating to the public. As we showed, almost half of DC savers believe they do not need to actively manage their pension – perhaps because they (incorrectly) believe their employer is doing it for them, in the way employers used to do. As long as DC continues to be the dominant scheme for new savers increasing engagement – at least to some degree – will be critical to securing decent outcomes.

FOR MEMBER CHOICE TO SUCCEED IT NEEDS TO BE IMPLEMENTED CORRECTLY

Survey and roundtable evidence presented in this report shows that there is broad support for moving to a model of member choice for pensions. However it also shows that there is some notable hesitancy from industry and policymakers. Allaying concerns about potential negative consequences for pension savers will be necessary for successful implementation of the policy.

Firstly if policymakers support a move to member choice, it needs to be implemented correctly. Member choice is not an alternative to the existing and planned initiatives to improve pensions provision, and it should not disrupt them. Member choice working well is interdependent on the success of initiatives such as the pensions consolidator, pensions dashboard and a clearing house (to ensure there is no additional burden on employers).

Secondly, to reassure people that moving to member choice will not result in a loss of protections, policymakers need to ensure that any lifetime provider is subject to the same strict regulations that apply to automatic enrolment funds, including the Value for Money Framework and the FCA's Consumer Duty. These elements will help to ensure that no matter where someone chooses to save, their savings are protected and they are consistently receiving value for money.

Finally, policymakers must understand that the primary purpose of member choice is to create a single pot for life and give employees greater agency and control over where they save. While the move may stimulate some more engagement, government should not expect it to be a transformative tool. For deep and widespread engagement, more needs to be done.

ENDNOTES

[1] 'Workplace Pension Participation and Savings Trends of Eligible Employees: 2009 to 2022', Department of Work and Pensions, 22 November 2023, https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2022/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2022.

[2] 'Ten Years of Automatic Enrolment in Workplace Pensions: Statistics and Analysis' (Department for Work & Pensions, 26 October 2022), https://www.gov.uk/government/statistics/ten-years-of-automatic-enrolment-in-workplace-pensions/ten-years-of-automatic-enrolment-in-workplace-pensions-statistics-and-analysis.

[3] The Chartered Institute of payroll Professionals, 'How Do You Solve a Problem like Small Pots?', 26 January 2024, https://www.linkedin.com/pulse/how-do-you-solve-problem-like-small-pots-we-got-here-next-steps-ctz9e/?trk=public_post_main-feed-card_feed-article-content.

[4] Department for Work and Pensions, 'Government Response to Ending the Proliferation of Deferred Small Pots' (Department for Work & Pensions, 22 November 2023), https://www.gov.uk/government/consultations/ending-the-proliferation-of-deferred-small-pension-pots/outcome/government-response-to-ending-the-proliferation-of-deferred-small-pots.

[5] 'Pot for Life: Rationale, Pros and Cons', Dentons, 16 January 2024, https://www.dentons.com/en/insights/articles/2024/january/16/pot-for-life-rationale-pros-and-cons.

[6] https://www.pensionbee.com/blog/2023/october/auto-enrolment-extension#:~:text=This%20law%2C%20passed%20as%20'The,to%20build%20up%20bigger%20pots.

[7] 'Lost Pensions 2022: What's the Scale and Impact?' (Pensions Policy Institute, 27 October 2022), 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/.

[8] Heidi Karjalainen et al., 'Challenges for the UK Pension System: The Case for a Pensions Review' (The IFS, 20 April 2023), https://doi.org/10.1920/re.ifs.2023.0255.

[9] 'An Employer's Guide to Talking about Workplace Pensions' (Pensions and Lifetime Savings Association, September 2021).

[10] Michael Johnson and Tom McPhail, 'Member Choice, to Complement Small Pots' Consolidation' (Social Market Foundation, 13 December 2023), https://www.smf.co.uk/publications/member-choice-pensions/.

[11] Department for Work and Pensions, 'Addressing the Challenge of Deferred Small Pots: A Call for Evidence', GOV.UK, 11 July 2023, https://www.gov.uk/government/consultations/addressing-the-challenge-of-deferred-small-pots/addressing-the-challenge-of-deferred-small-pots-a-call-for-evidence.

[12] Department for Work and Pensions, 'Ending the Proliferation of Deferred Small Pots' (Department for Work & Pensions, July 2023), https://www.gov.uk/government/consultations/ending-the-proliferation-of-deferred-small-pension-pots/ending-the-proliferation-of-deferred-small-pots; Department for Work and Pensions, 'Addressing the Challenge of Deferred Small Pots'.

[13] Department for Work and Pensions, 'Ending the Proliferation of Deferred Small Pots'.

[14] Department for Work and Pensions, 'Government Response to Ending the Proliferation of Deferred Small Pots'; Johnson and McPhail, 'Member Choice, to Complement Small Pots' Consolidation'.

[15] Department for Work and Pensions, 'Government Response to Ending the Proliferation of Deferred Small Pots'.

[16] Johnson and McPhail, 'Member Choice, to Complement Small Pots' Consolidation'.

[17] Johnson and McPhail 2023

[18] Johnson and McPhail, 'Member Choice, to Complement Small Pots' Consolidation'.

[19] Johnson and McPhail.

[20] Michael Johnson, 'Member Choice for Pensions: Addressing Some Common Questions' (Social Market Foundation, 16 February 2024).

[21] Johnson.

[22] https://www.cipd.org/uk/knowledge/factsheets/benefits-factsheet/

[23] Johnson and McPhail, 'Member Choice, to Complement Small Pots' Consolidation'.