ABI response to DWP call for evidence on *Looking to the future: greater member security and rebalancing risk*

January 2024

The UK insurance and long-term savings market and the ABI

*The ABI is the voice of the UK's world-leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world. We represent more than **300 firms within our membership**, including most household names and specialist providers, providing peace of mind to customers across the UK.*

*We are a purpose-led organisation: **Together, driving change to protect and build a thriving society**. On behalf of our members, we work closely with the UK's governments, HM Treasury, regulators, consumer organisations and NGOs, to help ensure that our industry is **trusted by customers**, is **invested in people and planet**, and can **drive growth and innovation through an effective market**.*

*A productive and inclusive sector, our industry supports towns and cities across Britain in building a balanced and innovative economy, employing over **300,000** individuals in high-skilled, lifelong careers, two-thirds of whom are outside of London. Our members manage investments of **£1.5 trillion**, pay over **£17.2 billion** in taxes to the Government and support communities and businesses across the UK. Please note we would be happy, and stand ready, to provide further information if this would be helpful to the Department for Work and Pensions.*

Executive summary

The ABI welcomes the opportunity to respond to this call for evidence. We fully support the aim of improving engagement and saver outcomes and welcome the opportunity to engage on the long-term thinking for the future of the UK pension system.

A lifetime provider model, whether pot for life or member choice, is conceptually very attractive, not least given the need to deliver a step change on pensions engagement in the UK. But both member choice and pot for life would be significant departures from the current automatic enrolment system where employers play a central role in the pension arrangements for their staff. Member choice would add significant administrative burden and expense to employers, create many regulatory headaches, and its implementation would take considerable time and effort. Pot for life is a much more fundamental reform and would be, at least, a decade-long project.

Both would remodel how the market currently works, and throw up many questions about how this would impact savers, providers and employers alike. Both approaches would also re-engineer the market dynamics for auto-enrolment pensions. To understand these impacts better, the ABI has commissioned external research which will look at how both member choice and pot for life could affect workplace pension dynamics. We aim to share the findings of this work with the department by mid-March.

The proposals in the call for evidence seek to increase engagement, reduce the problem of small pots and move towards a system with a smaller number of larger schemes. However, practical solutions to these problems are already in train, through pensions dashboards, a new Value for Money framework and the development of multiple default consolidators. Once successfully implemented, these measures should:

- enable savers to see all of their pensions in one place with unprecedented ease, driving up engagement,
- ensure schemes are offering good value, and

- help to reduce the number of small pots, accelerating consolidation both at scheme and pot level.

Before layering further change on top of the existing initiatives, they should be implemented and embedded first.

As well as the successful implementation of existing policy initiatives, further fundamental building blocks would need to be in place before member choice or pot for life could go “live”. The government would have to determine what type of pension arrangement could receive these contributions, and whether the regulatory regime which applies to them is suitable. Significant new investment in IT infrastructure would be required to enable the system to work effectively for savers and minimise the burden to employers. The lessons from abroad where pot for life has been adopted show that a clearing house would need to be established, every saver would need to be matched to their pensions, for example through a unique identifier, and consistent data standards be put in place.

The experience with the pensions dashboards project illustrates that wholesale changes to the UK’s pensions architecture are a non-trivial undertaking, particularly where IT infrastructure changes are required. The need for these new building blocks, including IT infrastructure, to implement a lifetime provider model further underlines the immense importance of not rushing into market-shifting proposals.

How these proposals hang together with other DWP priorities, such as default consolidators and CDC schemes, also remains unclear. The “better scheme” proposal in the call for evidence suggests an employer could decide to refuse their employee’s chosen scheme if they believe they offer a better alternative; but this forces schemes to make a value judgement, which could be akin to financial advice. This call for evidence references CDC schemes being able to benefit from pooling of charges and collectivisation, but contradicts that mechanism by also advocating for member choice which could take these benefits away from workplace default schemes. What can be said with confidence is that none of these proposals address the pressing need for a roadmap to increase contributions over the coming years. Whether in one pot or many, insufficient savings will still lead to a bad retirement outcome.

Perhaps most importantly, automatic enrolment was primarily set up to help those who were not saving into a private workplace pension, and many of those were lower paid people. A significant cross-subsidisation occurs in workplace pension schemes which makes them affordable for all savers and commercially viable for providers. A change in direction must not dilute this. It is therefore important that the market impact of these proposals is thoroughly scrutinised and understood. As mentioned above, the ABI has commissioned external research to look at how both member choice and pot for life could affect workplace pension dynamics, and we will share the findings of this work with the department.

Question 1: What are the key considerations to take into account before deciding the process to implement a lifetime provider model and what elements would need to be in place?

Consistent definitions: what is meant by 'member-led lifetime provider', 'default lifetime provider' and 'pot for life'?

1. DWP, and the whole sector, must be clear about terminology on member choice, pot for life and lifetime provider, including how we define a variety of terms that have at different times been used to argue for quite different policy proposals.
2. We feel it is important to distinguish between the member choice proposal, similar to the Private Member's Bill put forward by Anthony Browne MP; and the stapling of members to their first pension scheme, as has been done by the *Your Future, Your Super* reforms in Australia.
3. We consider the member choice proposal more limited in scope, extending the right to have pension contributions paid into an existing pension scheme, separate from the one that the employer set up for their staff. However, enabling member choice would still require significant operational change, as we outline below.
4. Stapling would be a substantial reshaping of the automatic enrolment system, moving away from one based around the employer responsibility of setting up an appropriate pension scheme for all eligible staff. Instead, the employer's main duty would be to ensure contributions were correctly paid into the different individual pension schemes that staff are already members of. Employers in this system would only need to have a default pension arrangement for staff who have never been automatically enrolled into a pension before.
5. Implementation of either member choice and stapling would not be straightforward, and there could be impacts to savers, employers and the industry at large if the right building blocks aren't put in place first.

What is the policy problem that a lifetime provider model seeks to solve?

6. Before making a decision on whether to implement a lifetime provider model (both member choice and stapling) or not, DWP should be completely clear about what policy challenge this is seeking to address.
7. From our reading of the call for evidence, the main benefit proposed by member choice is giving those who are more engaged the freedom to choose where they save into, whilst with each current employer. For stapling, the main benefit is that this would turn off the tap of small pots being created and eventually result in savers having only one pension pot to save into.
8. Clearly, both greater choice and solving the problem of small pots have merit. However, this would require a system-wide redesign of the workplace pension system which has been so successful in its use of inertia to get more people into saving. It is therefore important that this policy does not undermine the number of people saving, and the amount of contributions being made.
9. Currently, the priority areas that need solving are the adequacy of DC contributions; reducing the number of small pots; engagement, which can be more widely understood as savers understanding how much they currently have; and closing the gender and ethnicity pension gaps. There is also still no solution for increasing the number of self-employed people who save into a private pension. The PPI's pensions framework wheel[1] marks these areas as 'somewhat failing' or as having 'poor support' for the pensions system's objectives. Our understanding of a lifetime provider model, as exemplified by stapling in Australia, is that it would be unlikely to address these pressing needs, and should not be a distraction from them.
10. Australia is often given as a focus when the lifetime provider (stapling) approach is proposed but it's important to note that it has some key differences. The Australian system is not a system based on automatic enrolment but instead on mandatory employer contributions. Currently, Australian employers are required to contribute almost four times[2] that of their counterparts in the UK. This call for evidence focuses on a different aspect of what makes the Australian

[1] PPI (2023) - Renting in Retirement - The Fault Line Below the UK Pension A REPORT FROM THE PPI UK PENSIONS FRAMEWORK SERIES https://www.pensionspolicyinstitute.org.uk/media/fjgla1kv/20231130-the-uk-pensions-framework-2023-final.pdf

[2] Based on employer minimum contributions in the UK of 3% vs 11.5% in Australia at the time of writing. Because of the LEL in the UK for many people the employer figure in Australian is more than four times as large.

system successful, but is silent on the necessary specific features that make it as successful as it is. This includes the role of the Australian Tax Office in making transfers more efficient and much cheaper than in the UK, clearing houses, as well as the use of unique identifiers. Furthermore, in Australia many of the big positive changes such as default design have been driven by regulation which has had to be introduced to replace demand side pressure as the system still struggles to engage savers[3].

Changing systems before automatic enrolment has reached its goal needs to be carefully thought through

11. As the call for evidence points out, nearly 2 in 5 working-age adults are not saving enough for retirement[4]. So, while automatic enrolment has been successful in massively improving the number of people saving for their retirement, it is clear that the job is not done on tackling adequacy.
12. Furthermore, the approach of a lifetime provider (stapling) approach should be complementary to that of pension dashboards and potentially the multiple default consolidator approach to small pots. It is not clear how these different initiatives will hang together.

Contradictions between stapling and member choice

13. There is a contradiction between seeking long-term certainty, supposedly needed to invest more in private capital, and the reality of what a move to member choice would deliver. We are not yet convinced by the argument that the lifetime provider (stapling) approach would bring the stability to invest along longer time horizons, because savers could continue to switch (and would be encouraged to do so by the existence of member choice). We need to understand more about consumer behaviour when faced with the choice to leave the default employer scheme in order to make an assessment.
14. On the other hand, a lack of providers within the marketplace could stifle competition for scheme members' attention, leading to an oligopoly of providers in the market. A lack of providers will lead to reduced member movement which would lead to a decreased incentive to innovate and improve the value for money a saver could receive. There is little evidence to suggest that people investing in personal pensions or SIPPs, for example, would actively seek out investments that contributed to the 'productive finance' initiative.
15. It is not clear how one system based around defaulting and keeping customers in a single pot for life (stapling) and another based around requiring engagement and active choice in order to get the best value for money (member choice) could work well together.
16. It should also be considered how the proposed Value for Money framework could drive yet further market movement among savers. In Australia, we have seen how the public investment league tables have created an annual rush of engaged savers chasing past performance by transferring into the Superannuation scheme with the best investment returns in the previous year. These initiatives did not, however, drive wholesale behaviourial change in savers, and that is one of the key reasons why stapling was introduced in Australia.

Protecting Consumers

17. If it is decided that either a stapling or member choice approach is taken forward (or both), we would assume that the Government would still want workplace savers to have the same level of protection. This would mean that both providers of choice and providers that members are stapled to would have to adhere to the rules which apply to qualifying automatic enrolment schemes. This means:
    - Providing a default fund which is subject to the charge cap and permitted charge structure
    - Operating a default fund with de-risking towards the target retirement date
    - Operating within IGC or Master Trust Board Oversight rules as well as adhering to the future Value for Money framework.
18. Were DWP to move to a lifetime provider model, a new distinct regulatory permission for them may be required,

[3] Only 0.98% of savers transferred provider in 2021/22.
[4] DWP (2023) - Analysis of future pension incomes
https://www.gov.uk/government/statistics/analysis-of-future-pension-incomes/analysis-of-future-pension-incomes

similar to that of the Master Trust accreditation process. This accreditation process will need to align with other relevant permissions such as that needed to become a default small pot consolidator. Any requirements or duties on the employer to assess the veracity of the recipient of the pension contributions would be a material extra burden, unless an effective mechanism, such as a clearing house, is in place.

19. DWP would need to decide whether a firm seeking to attract savers via member choice would also need to operate automatic enrolment schemes for employers as a lifetime provider. If not, DWP would need to decide whether to impose additional requirements or controls (such as minimum pot size or contributions) to ensure that member choice is not exclusive to wealthier or high income savers. In doing so, thought would need to be given as to the fit with current nonworkplace pension arrangements, and how this would fit in with any future regulatory regime for the lifetime provider model.
20. Unlike individuals, employers benefit from the scale of bulk buying power. There is significant price pressure in the market, which has resulted in charges lowering significantly since automatic enrolment was introduced. Average fees for AE products are well below the charge cap of 0.75%.[5] It should also be considered how lifetime providers will demonstrate scale, given the Chancellor's ambition for pension schemes to have at least £30bn in a default fund by 2030 as referenced in the Autumn Statement[6].
21. Finally, this call for evidence proposes an exemption for employers who have a "better scheme". It is unclear how this would be determined and what factors would need to be taken into account to consider this. Potentially this could lead to all employers being perceived as providing financial advice as to what constitutes "better", and this would have to be assessed on an individual basis, rather than at a group one. There could be further conduct risk for employers which are firms the FCA would deem "professional". Rather than force employers to make a value judgement, explicit carve-outs should be explored.

Other policy developments

22. DWP should take into account how other policy developments will support its objectives; any evaluation of the merits of pot for life should look at its incremental costs and benefits after all of these policies are delivered.

Pension Dashboards

- In order to address both engagement and the issue of small pots, DWP should look at how policy and industry can encourage and enable simple, cost effective , member-initiated transfers. In Australia, savers are able to use the Australian Tax Office (ATO) dashboard to move their Super with a few clicks.
- Pension dashboards should solve the problem of "lost pots" as users will no longer be reliant on informing their provider of contact details to stay connected to their pots. Pension dashboards should also make it easier to plan holistically by using available tools that enable people to look at their income streams across DC, DB and State Pension. Arguably Dashboards will allow for a digital 'single pot' where all the member's savings can be viewed together whilst not requiring them to be transferred to one provider.

Improved efficiency

- There is scope for improved efficiency from continued market consolidation and technology investment which will mean that deferred pots may not be a significant burden on pension schemes in the future. Currently the costs in large schemes are much lower and this is where most small schemes are consolidated into. Furthermore, multiple default small pot consolidators, if successful, are expected take out the majority of the existing 12 million small pots.

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[5] DWP (2021) Pension charges survey 2020
https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes
[6] DWP (2023) - Autumn Statement Pensions Reform
https://www.gov.uk/government/collections/autumn-statement-pensions-reform-2023

Improved engagement

- Currently direct marketing regulations within the Privacy and Electronic Communications (EC Directive) Regulations 2003 (PECR) prevent many providers from properly engaging with their customers to encourage consolidation. By reforming PECR, the Government and regulators could give providers and trustees the ability to help savers by nudging them towards appropriate actions such as member-led consolidation and thinking about the adequacy of their retirement savings.
- A further change could be to encourage member-led consolidation through standardised messages included in automatic enrolment communications. This could normalise the process of consolidation upon joining a new workplace scheme.

Question 2: What are the alternative viable mass market vehicles, including CDC, that can provide security for members while spreading risk, and address the transition into a pension income?

Evolution, not revolution

23. DWP should start from the policy objective and then determine the best approach that allows trustees to deliver better outcomes for their members. The question implies the need for providing security in retirement and transition into pension income. We agree that these objectives are important. We hope the newly proposed duty on trustees would help deliver retirement strategies for members to help them transition and maintain a sustainable income.
24. To meet the policy needs identified above, strategies that blend existing retirement income products and provide targeted support to guide savers through the options are much more feasible in the shorter term than alternative mass market vehicles. The decumulation market has a long experience of delivering secure income, as well as flexibility. That is not to say product innovation cannot meet these policy objectives. Indeed, more innovation in this space would be welcome, and longevity and investment pooling solutions should be given appropriate consideration. But in the more immediate term, to help people transition and maintain a sustainable income, the focus must be on encouraging blended strategies and targeted support to help people access the right option for them.
25. Moreover, alternative products would not necessarily solve all the complexity of transitioning to a retirement income. People would still need help to make the best decisions for them. CDCs don't take away the need to make many of the necessary decisions at and throughout retirement depending on their circumstances, objectives and preferences. Some examples of retirement decisions people will need to make include:
    - When is the right time to retire: People have multiple jobs in their working life, sometimes working in multiple jobs at the same time. People also take career breaks. That means that the appropriate time to retire depends on the size of the pot or benefits they are entitled to.
    - How to plan their income when transitioning to retirement: People may choose to phase in retirement, reducing their hours progressively. This means that they would likely need smaller withdrawals / pension income and not yet a full pension.
    - How to plan their income before accessing the state pension (SP): If they retire before the SP, they would likely want to either use some of their pension savings to bridge the gap or to top up a CDC pension.
    - Whether they are providing for dependents: This is a crucial factor in deciding how much income to take, and what happens to their pension after their death – considerations include the age and financial circumstances of those dependents, which is a highly individual decision.
    - How their health affects their retirement income: Depending on their health and lifestyle factors, a cash lump sum or enhanced annuity may be more appropriate.
26. When considering creating markets for alternative products, it is important to remember that no product works for everyone. Decisions are highly individualised, and inequalities in income, wealth and health affect the ability to pool risk and the fairness of outcomes. CDCs are a case in point. The research by Milliman and Barnett Waddingham[7] that we commissioned, found that "*whether CDC or Individual DC delivers the better outcome varies with the investment*

[7] ABI (2023) - Government hopes for Collective Defined Contribution pension schemes based on incomplete picture https://www.abi.org.uk/news/news-articles/2023/9/government-hopes-for-collective-defined-contribution-pension-schemes-based-on-incomplete-picture-warns-abi/

scenario, how long the member lives, the exact nature of the products on offer and the metrics used for the comparison."

27. Reorientating the workplace pension saving system to work around the CDC market and a lifetime provider approach will require considerable investment in time and money but there is no certainty that this will result in better outcomes for savers, and it is certain that there will be a variety of outcomes that may not be seen as fair.

Exemptions and loopholes

36. It would seem to be contradictory to have a proposal for creating an entirely new system based around stapling members to their first pension and then creating an exemption for employers who provide alternatives that are deemed to be "better", such as CDC. It is not clear how CDC and a lifetime provider model would work together well or indeed how these systems are more compatible than the current AE system would be with CDC provision, given that CDC needs stable membership over the long term, which could be threatened by the member choice reform. It is not clear whether CDC schemes would accept contributions from third party employers, and if they would be willing and able to handle different levels of contribution and still target the same income.
37. Having this exemption creates a third additional part which brings a lot of added complexity to considerations. For example, if the aim is to use pot for life policy reforms to develop a CDC market there will need to be a point at which this CDC exemption is added as an option for employers. As CDC is a different product presumably it would need a separate set of regulations and guidance to go alongside it which would also need to ensure consistent consumer protection. It is entirely unknown how savers would react to this policy development and how it might play into their choice architecture when exercising their right to member choice. Furthermore, it is another product that employers will need to upskill themselves on if they wish to offer it to employees and potentially have to understand if new employees wish to exercise their member choice to pay employer contributions into a previous workplace's CDC scheme.
38. We would like to understand further why CDC is automatically assumed to be better than a pot for life requirement. As mentioned above, the study we commissioned on CDC shows that individual outcomes are dependent on their circumstances. Indeed, the research "back-tested the model by assuming that investment returns for the next 50 years will be the same as those experienced between 1973 and 2023. This did not make any allowance for mortality improvements above those assumed in our base scenario, so only reflects the impact of this particular investment scenario." It found that "CDC would have underperformed [individual] DC regardless of age of survival". The starting point will have made a difference to the outcome, but that reinforces the fact that outcomes depend on circumstances, not just inherent characteristics of the scheme.
39. One way of ensuring customers are getting the best outcome could be to include CDC schemes in the Value for Money framework so that there is a fair comparison across products.

Question 3: What are the other considerations and building blocks that need to be in place before moving to a single lifetime provider, including any transitional arrangements?

40. A pot for life model is at least a decade long project, and as we have learned from automatic enrollment the chances of its success will be much harder if it doesn't have cross-party consensus. It also requires essential building blocks to ensure that it would work successfully the savers and their employers. Some of these building blocks are already in train, or are being developed, and they must occur first before any implementation of a lifetime provider model. It's very possible that the way the workplace market operates and looks today will be very different once these initiatives are in place and embedded. A pensions ecosystem which has pensions dashboards publicly available, an automated transfer solution to small pots up and running, and both the phases of the proposed Value for Money framework in place will have fewer pots and fewer schemes. The pot for life model will have to operate in this universe, with some additional infrastructure in place to make it work. We have outlined the very many practical considerations that would have to be thought through, and some solutions can be found in the table below.
41. More widely, the UK needs to have a concrete plan for how to solve the savings adequacy crisis. This means prioritising the extension of automatic enrolment to 18-year-olds and making saving count from the first pound earned. It also means a commitment to a clear timeline that sets out exactly how to increase minimum contributions to get to a total

of 12%. This could be achieved through incremental steps over the next decade by rebalancing employer and employee contributions so that both contribute 6% of pensionable pay as a minimum to the employee's pension.

42. We recognise that the UK is still living through a cost of living crisis that makes increasing contribution rates incredibly challenging. However, recent work by Phoenix Group and WPI Economics recommends specific economic triggers that depoliticise the decision making as well as ensuring households are on a better economic footing before further changes are made.[8]

Member choice and lifetime provider: implementation considerations

A review would need to be carried out of **all relevant regulations** that apply to workplace pensions to determine what will need to be carried over to any member choice/lifetime provider model. This will include, but will not be limited to:

1. Whether the recipient scheme would have to offer a **charge capped default fund.**
2. Whether the recipient scheme would have to undertake the **comprehensive value for money assessment** which would need to be carried out by an IGC or trustees.
3. **A unique referencing system will need to be developed.** Each UK pension plan would need a unique ID (e.g. Scheme and Plan number plus provider/platform ID). This will be needed for the clearing house to match payroll data with the provider, and for the provider to allocate funds within their internal infrastructure.
4. **Employers need to be advised of the unique reference numbers to add to their payroll**. We will need systems and processes built to allow schemes to provide these details for every new hire, before any pension deduction is due. The alternative would be for the clearing house to try to match people based on personal details each pay period, which would be very difficult or even impossible, based on potential data issues (e.g. married/maiden names) and the need for certainty of the match.
5. **The clearing house must be designed and built before any employer can be compelled to make contributions to multiple pension schemes.** Similarly, a question remains on whether this would be run by the Government, or open to a commercial market, and how such a market would be regulated.
6. **Providers will need to make changes to their contribution allocation systems** to cope with contributions pushed to them by the clearing house across multiple workplace pension schemes, within a single data file from the clearing house.
7. **Contribution monitoring** to ensure the correct contributions are paid on time. The Pensions Regulator has recently tightened requirements for workplace pensions.
8. **Net pay arrangement (NPA) and relief at source (RAS).** NPA enables tax relief through payroll, and is used by many master trusts and all single employer trust-based scheme. Whereas RAS, where contributions are made net of basic rate tax to the provider, are used by many other providers. Having the two different systems would mean employers would have to make allowances for both, i.e. RAS for some members and NPA for others. Operating the two systems within the same payroll is not impossible, but it would likely create a very large number of errors that are difficult to put right. This would impact HMRC, as well as the employer and provider.
9. **Discriminatory contributions:** some requirement will have to be made to ensure that employers pay the same level of contributions, irrespective of whether it is the scheme that they have set up or a scheme of an employees' choosing.
10. **"Better scheme"** – the call for evidence notes the concept of an employer opt out where they feel their scheme is superior. This would seem to create a new duty to make a judgement, and therefore a potential liability if the employer gets it wrong.
11. **Whether an own-trust scheme must be forced to accept another employer's contributions**. If own-trust schemes become multi-employer pension schemes, to allow lifetime provider and member choice, then there would need to be another review of the master trust regulations as these would apply to every DC Occupational Pension Scheme (OPS). Otherwise, the duty on employers would be to pay into its own scheme, as now, or the employee's first scheme that is willing to accept contributions.
12. **Know your customer anti-money laundering regulations.** These require checks on the party making payments to a pension scheme, which will be the employer. There are important questions to answer such as: who would be

[8] Phoenix Group & WPI Economics (2023) - A framework for increasing auto enrolment contributions https://www.thephoenixgroup.com/news-views/a-framework-for-increasing-auto-enrolment-contributions/

responsible when a provider gets an unidentified payment into an existing pension scheme from an employer bank account they have no record of? Would this be the clearing house?

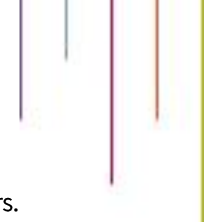
13. The requirement for a **Section 27 agreement** with the employer to maintain contributions where the recipient scheme is a personal pension (if recipient schemes are expected to be qualifying schemes). This would need to be delivered to make the scheme qualifying within 6 weeks of the employee starting with the new employer, otherwise the employer would be in breach of AE regulations by not automatically enrolling the employee into a qualifying scheme.
14. **What support will be in place to enable people to make a member choice?** If the onus will be on employees to make the decision about their pension saving provider, how do we ensure they are able to make an informed decision. Given what we know about the access to advice for retirement decisions it is unlikely that the vast majority of savers will access advisers to inform them about the best value for money scheme, and the value for money framework is only going to be aimed at a professional audience.
15. **Employers will potentially need to make adjustments to their benefits.** Many DC OPS offer death benefits under the same trust as the pension, conditional on pension scheme membership. Those who choose another scheme might lose these, while someone who periodically transfers out would not.
16. **Exception handling.** Pension providers do not generally welcome employers pushing payments to them and prefer to issue a direct debit to collect what they have been asked to collect. Conversely employers are unlikely to welcome having to reconcile a multitude of debits being made by the range of providers chosen by their employees. As well as adopting systems to allocate contributions paid into a provider bank account, providers will need to be provided with data to allow them to query and potentially return contributions where they have been paid in error. Similarly, there are occasions where employers make errors within their payroll that need to be resolved. This will see employers potentially dealing with dozens of providers to reconcile an issue, unless the clearing house deals with these issues as a single point of contact.
17. **Employer insolvency.** Thought will have to be given over who will deal with claims for missing contributions due in respect of insolvent employers.

Question 4: What are the advantages and disadvantages of moving to a member-led lifetime provider model prior to considering introducing a default lifetime provider model?

43. We are not supportive of a change to either a member-led lifetime provider model (member choice) or a default lifetime provider model (stapling) without those essential building blocks as outlined in question 3 having been in place first. Were a pot for life model to be adopted after those building blocks, then it would be preferable to move straight to a stapled approach. Whilst member choice may seem like a more straightforward change we anticipate it would be hugely disruptive to the workplace market but without the benefit stapling might provide in the way of stopping more small pots from being created.
44. Introducing member choice would not have a material impact on small pots. As seen in Australia, where they had free choice from 2005, they ended up having to introduce stapling to solve small pots in 2021. The engaged savers who will exercise their right to member choice (and will be the target market for providers on an individual basis) are not those who have multiple small pots.

Question 5: What is the right timing and sequencing of these potential changes? Which part would best be implemented first and why, or should any be implemented concurrently?

45. DWP needs to think about the interaction between member choice and stapling on one hand and scheme and pot consolidation on the other. As stated, this project would take many years to implement successfully. The pensions dashboards project itself has taken 8 years since the announcement at Budget 2016, with no confirmed availability point yet in place. How this reconciles with the Chancellor's ambition for all people saving in a default arrangement to be in a fund worth at least £30bn remains to be seen. If achieved, this will clearly have a considerable impact on the current market dynamics and lead to a significant decrease in the number of pension providers operating, perhaps down to a dozen or so, although it remains unclear as to whether this vision is achievable in such a short time frame.
46. Whether successful or not, it remains the case that stapling should not occur prior to this point of peak market consolidation as there is little point stapling customers to schemes which will then be wound up or consolidated into



larger ones, and which in any case may be unwilling or unable to receive contributions from other employers.

47. This will most likely be achieved by increased pressure on Occupational DC schemes with assets under £100m, followed by the Value for Money framework which will force further consolidation. Whether this approach is successful or not remains to be seen but critically, it would not make sense to start stapling members to their first pension if they are going to then cease operating due to consolidation.
48. Figure 1 outlines the some of the anticipated policy development over the next decade.

Figure 1: Policy development matrix

Year	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*	*2031*	*2032*	*2033*	*2034*
AE 2017 Review Recommendations	Staggered reduction of LEL										
Value for Money Framework	Consultation	Pension Act	First phase		Second phase						
Pensions Dashboards	Dashboard development			Publicly available	Further development of functionality						
Multiple Default Consolidators	Development: working group and clearing house creation						Default Consolidators operating				
Industry ambitions on Minimum contributions	8%						10%			12%	