THE SOCIETY OF PENSION PROFESSIONALS

making pensions work

Just one pension?

An SPP analysis of proposals for The Lifetime Provider Model

May 2024

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Foreword

There is no doubt that the problem of small pension pots can and does impact many savers and parts of the pensions industry.

For example, as savers are likely to have numerous jobs throughout their career, keeping track of various different pension pots is becoming an increasing challenge, one that has been multiplied by the success of Automatic Enrolment (AE).

For the pensions industry, the cost of dealing with small pots has been put at £225m annually[1] - a cost that is ultimately passed on to savers.

Many have pondered the merits of a single pension pot for life primarily as a means to prevent these small deferred pension pots from building up in the future - PPI modelling suggests a substantial increase in the problem, from 20m small pots today to 27m by 2035[2].

This has been referred to as *"one member, one pot"* or a *"pot for life"* – both broadly similar means of describing a single pension pot for savers that should last a lifetime irrespective of employer, or how frequently a saver changes roles within the private sector.

Debates around these issues had continued for more than a decade until, in November 2023, this relatively niche area of pensions policy was thrust into the limelight with the Chancellor announcing in his Autumn Statement that he would give workers the right to decide on the scheme their employer pays their contributions to. Simultaneously, the Department for Work and Pensions (DWP) launched a consultation which sought views on going much further than that and fundamentally asking whether a single Lifetime Provider Model (LPM) would improve outcomes for Defined Contribution (DC) pension savers compared to current workplace arrangements.

It remains unclear how committed Government is to this issue having stated in this years Spring Budget that it is merely, *"...committed to exploring a lifetime provider model."* With a General Election looming, other political parties have been reluctant to either accept or reject the LPM either.

The Society of Pension Professionals (SPP) is well placed to independently explore the implications of pursuing the LPM, given our vision of a secure retirement for all, and our clearly defined mission to help deliver an effective operating and regulatory environment. We hope that in doing so, we can help inform, stimulate and improve debate on the subject amongst policymakers, the media and other interested parties.

Steve Hitchiner,
President, The Society of Pension Professionals (May 2024)

1 DWP, Ending the proliferation of deferred small pension pots, November 2023:
https://www.gov.uk/government/consultations/ending-the-proliferation-of-deferred-small-pension-pots
2 Pensions Policy Institute, July 2020:
https://www.pensionspolicyinstitute.org.uk/media/pqynaq5p/20200723-deferred-members-final-report-for-the-website.pdf

Acknowledgments

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Executive summary

- **SPP believes that Government has already set in motion several positive pensions policy reforms that should be given an opportunity to be implemented and assessed before considering whether the LPM is needed**
  There are probably better, cheaper, more effective alternatives, most notably a fully operational pensions dashboard system that comes into effect in 2026 and could be further enhanced in the future. If policymakers and industry concentrate on policy changes already in motion, this is likely to increase their chances of success whilst simultaneously reducing the chances of a LPM being required.

- **If a LPM is introduced, a robust, proactive regulatory regime will be critical to its success**
  Consideration will need to be given to whether the regulators have the right powers and it will be incumbent on regulators to ensure high standards are maintained, particularly given there may be less competitive pressure and less employer engagement.

- **Introducing an effective LPM will take many years, strengthening the need for an all-party consensus if introduced**
  This timescale remains uncertain but SPP believes it is unlikely to be up and running with the next decade. This means the LPM will probably not provide any benefit for those who are less than 10 years away from retirement. By way of example, the pensions dashboard was first piloted in early 2017 and the deadline for schemes to connect to it is October 2026.

- **The importance of employer engagement must not be underestimated**
  The LPM is likely to eliminate or reduce that crucial element of employer direction and the connection between the employer and employee regarding pensions. If policymakers do not address this, it could lead to employers in some sectors focussing on other elements of remuneration, rather than better pension contributions, to differentiate themselves from their competitors.

- **The LPM must not allow savers to become stuck in poorly performing schemes**
  The LPM is likely to create a high risk that a saver could end up becoming stuck in the first pension scheme that they are enrolled in, mirroring the lack of switching in the banking sector, but with potentially worse outcomes.

- **Too big to fail - the LPM will probably encourage consolidation thus leading to only a limited number of very large providers**
  Whilst having a small number of large providers may have some efficiency benefits, the costs of a bail out should a provider fail could be very significant. Loading those costs onto general taxpayers is likely to prove deeply unpopular.

- **Administration - it will be a sizeable challenge for employers to direct contributions to a number of different providers**
  This challenge is not insurmountable but it will be costly and complex. This was a key finding of the Government commissioned Small Pots Working Group in 2020.

1. The UK Pensions Landscape

Since the 1980s, the UK has seen a general trend away from a state-based solution towards one based on the workplace and individual responsibility - with the role of the state pension clearly delineated as providing the basic safety net.

By way of example, although the full state pension of £221.20 a week may provide a minimum income, more than half of UK pensioners get less. An indication as to the generosity of the UK state pension may be found in comparing minimum levels where the UK compares poorly,[3] thus emphasising the importance of private provision in the UK.

The UK pensions landscape

In seeking to deliver any form of improvement to the UK pensions system, it is important not to take a 'first principles' approach. For example, the Australian model has often been put forward as a LPM worth replicating without acknowledging it has been evolving towards it for 35 years – a considerable head start on where we are today – and that the Australian regime takes a markedly different approach to charges i.e. they are considerably higher[4].

Policymakers must recognise that we are not starting with a blank sheet of paper. The UK already has a large, complex, fragmented but well-established pensions system, and a great deal of capital investment has gone into building it up.

This situation undoubtedly presents opportunities. For instance, it is vastly cheaper to tweak an already-functioning system than to eradicate a system and build a completely new one from scratch.

Conversely, there are downsides. Attempting to introduce a new model, such as the LPM, is likely to present a myriad of difficulties in such a well-established system. For example, as has often been highlighted, it would be extremely complex for payroll systems and employers to manage contributions to multiple schemes. It would also be costly, with almost two thirds of employers (63%) worried about the increased payroll costs associated with a LPM.[5]

Challenges in delivering a secure retirement in the private sector

There are two key challenges for the private pensions industry.

First, to ensure consumers make some provision for the future when the present may be financially challenging. Research from DWP suggests most people (53%) who do not have a pension, fail to do so because they simply cannot afford to make any contributions[6]. Tied to this is that those making contributions are doing so at a rate that will provide sufficient income at retirement.

The second challenge is to ensure value for the mass disengaged – the vast majority of the workforce who have neither the time or inclination to be engaged, whether through inertia, procrastination or a lack of understanding.

Numerous studies have demonstrated the generally poor levels of financial capability amongst UK consumers[7]. Steps to address this through the education system have proved largely ineffective and waiting for future generations to be equipped with the skills, confidence and knowledge to make informed investment decisions is not a practical solution to the immediate needs of savers.

As an alternative, consumers could seek advice from a suitably qualified professional such as a financial adviser but the cost of this is prohibitive for many, the benefits not always understood and mis-selling scandals have created a degree of mistrust amongst some consumers too. In 2018, FCA research found that 91% of the British population had not accessed regulated financial advice in the previous 12 months[8], not something that is likely to have changed significantly in the intervening 5 years.

Historically, trade unions often facilitated and guided their members towards appropriate pension solutions but today, with more than three quarters of the workforce non-unionised[9], they cannot be relied upon for large scale influence.

This leaves employers and the pensions industry as the best means of ensuring a secure retirement for the 80%+ of workers employed in the UK's private sector[10].

3 Pension Times, February 2024: https://new.pensiontimes.co.uk/pensions-retirement/state-pension/uk-state-pension-compare-countries
4 Superguide (Australia's leading sueraannuation and retirement planning site) March 2024: https://www.superguide.com.au/super-fund-comparison?ref-post=%5BPOST_SLUG%5D
5 WPI Economics report commissioned by the ABI, March 2024: https://www.abi.org.uk/globalassets/files/publications/public/lts/2024/understanding-the-impact-of-pot-for-life.pdf
6 Research and analysis, Planning and Preparing for Later Life, November 2022: https://www.gov.uk/government/publications/planning-and-preparing-for-later-life/planning-and-preparing-for-later-life
7 Money Advice & Pensions Service: https://www.fincap.org.uk/en/articles/key-statistics-on-uk-financial-capability
8 The changing shape of the consumer market for advice, FCA Consumer Research, August 2018: https://www.fca.org.uk/publication/research/famr-interim-consumer-research-report-2018.pdf
9 BEIS Statistical Bulletin, May 2022, Trade Union membership: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1077904/Trade_Union_Membership_UK_1995-2021_statistical_bulletin.pdf
10 Private sector workforce data, Statistica, January 2024: https://www.statista.com/statistics/676734/private-sector-workforce-uk/

To deliver a properly functioning pensions system, competition is crucial. Without competition, there is a risk that some businesses will seek to maximise profit and avoid any innovation that may distract from the bottom line.

Too big to fail?

A LPM is likely to encourage consolidation, lead to only a limited number of very large providers and thus squeeze out competition. In addition, having just a few large providers runs the risk that the social consequences of a provider failing may be too heavy for government to permit. The costs of a bail out would likely be very significant. Loading those costs onto general taxpayers is arguably unfair and would likely prove deeply unpopular, other than to those who benefit.

Even without a single large provider failing, the consequences of such consolidation are likely to be negative for consumers. This is because all the available evidence indicates markets dominated by too few providers tend to lead to higher prices than are necessary. Furthermore, expenditure is often directed to maintaining market barriers and corporate profile rather than broader innovation.

The LPM is therefore likely to deter new entrants. As has been shown in many areas of the economy, new entrants to a market often lead to increased innovation, reduced costs, increased consumer choice and consumer benefits e.g. EasyJet and Ryanair to the aviation industry and more recently Aldi and Lidl to the supermarket sector.

Linked to this issue of size and competition, larger schemes will in all probability have much larger marketing budgets, an issue recently highlighted by the Pensions Policy Institute[11]. The lure of big, established, recognisable brands may well encourage those with higher value pots to move away from schemes primarily designed for low earners and could result in further consumer detriment as a result of higher charges.

These factors suggest policymakers should not focus solely on regulatory convenience based around a select few firms operating in the DC sector. The sector needs a sufficient number of providers to make anti-competitive behaviour between firms not just undesirable but impractical, keeping management and product development teams on their toes, driving efficiencies and savings and having an unrelenting focus on investment returns for savers. To achieve this, a competitive environment is likely to feature numerous master trusts, additional providers and employer-sponsored schemes.

Employers

The role of the employer is vital. Whilst it is not necessary for all employers to be engaged, there does need to be a sufficient number to influence the market on a scale that makes such involvement productive and worthwhile.

Employers can do this efficiently though the employment of professionals that they can afford to fund, as employers have resources that most individuals do not. It remains more efficient and socially productive to have employers make decisions on a collective basis for their workforce rather than having each worker go their own way.

Many employers genuinely have an interest in ensuring that their expenditure on pensions is appropriately used and on presenting themselves as attractive to their workforce. They can add real value.

Pension professionals must compete for employers business in a completely different wholesale professional approach to that which is presided over in a purely retail market.

This need for pension professionals to offer value to their employer clients is itself a driver of innovation, as consultancies need to create and deliver enhanced outcomes in the fields of communication, investments, administration, governance, and retirement fund access, in order to successfully win business. As well as being a serious driver of innovation, this also links into other employment benefits and rewards but with pensions as the key element (after wages/salary) in any package of remuneration.

In contrast, if employers are denied any role beyond making minimum contributions to designated accounts, as they most likely would be with a LPM, then it is natural to focus only on minimum effort and minimum cost. Indeed, more than half of employers (57%) recently said that if LPM proposals were enacted, their interest in the quality of the workplace pension scheme that they would choose for remaining employees would be reduced[12].

The focus would move to retail solutions like marketing/advertising, initial gifts and low charges, plus linked activities such as lobbying and public relations. There is no need to engage with employers or their concerns.

11 PPI, Lifetime Provider Report, February 2024:
https://www.pensionspolicyinstitute.org.uk/media/xlllojai/20240226-lifetime-provider-report.pdf

12 WPI Economics report commissioned by the ABI, March 2024:
https://www.abi.org.uk/globalassets/files/publications/public/lts/2024/understanding-the-impact-of-pot-for-life.pdf

2. The Lifetime Provider Model & Employer Governance

The LPM will prompt a shift in responsibility for pension selection from employers to individuals - although employers will still initially need to offer a default.

So, will this model increase or decrease burdens on employers? There are strong arguments on both sides and the likelihood is that in some areas the burden will reduce and in others it will increase. What is essential is that these proposals work for all parties.

Irrespective of where the burden will lie, the workplace, assisted by AE legislation, must remain a productive channel through which pension contributions can be collected and paid to schemes.

Administration

It will be a sizeable challenge for employers to direct contributions to a number of different providers. Indeed, this was a key finding of the Government commissioned Small Pots Working Group in 2020[13]. Furthermore, a recent study suggested that 82% of employers predicted that the proposed reforms would lead to an increase in the monthly costs of their pension related activity[14].

Although complex and costly, it is not beyond modern technology and a good clearing system, as envisaged to support small pot consolidation, should be able to cope with these challenges if sufficient time and resources are allocated. A central clearing house, is one option. However, having a central system to process and match mandatory contributions to accounts, as in some countries, will have considerable additional costs. It could also necessitate a significant shift of administrative responsibility to the State - something that SPP has previously highlighted as potentially resulting in members believing that the State has ultimate responsibility for outcomes[15]. The alternative being a central system operated by industry as happens in Australia and the US.

If a LPM is introduced, the administrative complexity must not be underestimated and so a sufficient lead time is essential. Such a system must be fully tried, tested and operational before launching a LPM. Australia's SuperStream data framework (a legislative framework to implement the super data and payment standards, including supporting regulations that applied to processing super contributions and rollovers) serves as a good example as to how having the right infrastructure in place – and taking the necessary time to create an implement it - maximises the chances of success.

Consideration also needs to be given to the complexity, costs and challenges of rectifying mistakes. Errors with auto-enrolment are not uncommon (not processing joiners, incorrect contributions etc.). Fixing these can be complicated (calculating investment loss etc.). Such problems will be substantially magnified when occurring across multiple providers, as will be used under LPM. One potential solution would be for the system to allow payments to be directed to the individual's fund in the case of corrections for ex-employees. Robust data flows will be essential to minimise the impact of support issues, and the Regulator will have a part to play supporting rectification.

Choice

Whilst some commentators have suggested that members want choice over their pension funds and that employers see their duties as an unnecessary burden, others state that members see pension choice as stifling and employers want to remain paternalistic by retaining control over options that they can engage with in a co-ordinated way. Indeed, recent research from supporters of an LPM reinforced the importance of the employers role by revealing that 67% of savers *"like their employer handling their pension for them."*[16]

The reality is of course that both of these things are true – it depends on the individual and the employer, not just size and sector, but the split of the workforce. A good pension structure can satisfy both perspectives.

13 Small Pots Working Group, December 2020: https://assets.publishing.service.gov.uk/media/5fdb16428fa8f54d5d6556d4/small-pots-working-group-report.pdf

14 WPI Economics report commissioned by the ABI, March 2024: https://www.abi.org.uk/globalassets/files/publications/public/lts/2024/understanding-the-impact-of-pot-for-life.pdf

15 Response to DWP LPM Consultation, January 2024: https://the-spp.co.uk/wp-content/uploads/SPP-response-to-consultation-on-lifetime-provider-model_vnosig.pdf

16 Cushon, "Public attitudes on the pensions 'pot-for-life' proposal", April 2024: https://www.smf.co.uk/wp-content/uploads/2024/04/Up-for-grabs-April-2024.pdf

Small businesses

It has been suggested that pensions are not a priority for SME's. For the smallest businesses, pensions have often been viewed as a bureaucratic, costly task that distracts the business from getting on with their day-to-day work. This appears to be supported by the fact barely a third (35%) of micro-employers offered a workplace scheme in 2017[17].

For these organisations, the LPM has been hailed as a model that will ensure those employed by the smallest companies will receive a secure pension without the employer being unduly burdened.

However, by 2019 the number of micro-businesses offering a workplace scheme had significantly increased to more than half (51%)[18] suggesting that whilst some may still view this as burdensome, even the smallest businesses are capable of offering suitable workplace pensions without the state intervening to insist on a LPM. The 49% of micro entities not offering a workplace scheme probably do so for good reason i.e. they are sole director companies (who make up 74% of all small businesses) and are exempt from AE or because they pay their staff less than £520 a month, which also exempts them from AE.

So, AE appears to have worked, 94% of employees are covered and although LPM might be welcomed by some SMEs (SPP is aware that some SME representative bodies have suggested they would be happy to see reduced governance requirements) the current system is working.

Engagement

Ultimately, whether small, medium or large, it is the most engaged employers who will drive the changes to scheme proposition that all members benefit from.

But irrespective of size, the LPM removes that crucial element of employer direction and connection between the employer and employee regarding pensions.

SPP is concerned that an employer's only means of differentiation will be via the amount contributed, rather than the quality of the offering. That may lead to employers in some sectors focussing on other elements of remuneration, rather than better pension contributions to differentiate themselves.

Paying higher salaries could allow people to make their own decisions as to how much of that spend goes towards pensions (as a personal contribution), but the perceived needs of the present may win out against the needs of the future – reducing pension saving for those with modest finances.

The LPM will almost certainly reduce the amount of communications that employees receive from their employer in relation to the benefits and value of pension savings.

So, from a consumer perspective, most savers will not engage with pensions and are unlikely to critically analyse the lifetime provider they have chosen (or inherited if it is a default option selected by their first employer).

Even where savers select their initial provider, many will not reassess their choice during their working lifetime which could lead to considerable consumer detriment.

Safeguards, advice and guidance may go some way to addressing the latent inertia but is unlikely to be sufficient to wholly address this fundamental weakness.

In the banking sector, three quarters of savers have never switched their current account provider[19], despite the introduction of various innovations to make switching easier, simpler and more attractive e.g. a 7 day switching service and Open Banking.

In the pensions marketplace the problem is likely to be greater still given a pension is a more complex product than a current account and there are arguably more frequent and meaningful developments of pension products (investment changes, access options etc.). Likewise, the impact on the saver of remaining with a single provider throughout their lifetime could have a far greater negative financial outcome than remaining with the same bank. In the pensions market, older arrangements are less likely to provide optimum solutions e.g. some individuals in annuity targeting defaults that were intending to use drawdown may not have been best served by these strategies in recent years, changes in investment performance, higher and/or more complex charges and fees. In such circumstances, a lack of good governance could well lead to substantial consumer detriment.

17 BEIS, Employers' Pension Provision Survey 2019, published 2022:
https://www.gov.uk/government/publications/employers-pension-provision-survey-2019/employers-pension-provision-survey-2019
18 Ibid
19 BBC, June 2018:
https://www.bbc.co.uk/news/business-44522630

The LPM does not have to mean the death of governance or indeed paternalism; scheme/provider level governance will be vital to ensure products are updated to remain fit for purpose and that individuals are supported.

The centrality of employers

As already highlighted above, recent research from supporters of an LPM reinforced the importance of the employers role by revealing that 67% of savers *"…like their employer handling their pension for them."*[20]

The position of the workplace at the centre of AE has been key to its success in much the same way that moving from own-trust to master trust does not mean employers have to cease all involvement.

Yet it appears likely that employer/employee engagement on pensions may reduce through a LPM given the model will mean that in many cases the pension provider will vary from one employee to another within the same company and that there is likely to be very little link between the employer and the scheme provider.

The challenge of employer engagement may in part be addressed by mechanisms such as workplace financial education. Similarly, there is nothing to stop employers reviewing pension schemes through pensions governance groups. These groups could even expand their scope to consider wider benefits and financial wellbeing to support employees (with all the retention and productivity benefits this can bring). To further facilitate engagement, the LPM must ensure easy access to relevant governance data (perhaps through the new pension dashboards). If it all comes together, the Value for Money (VfM) framework could make provision for this too.

In summary, employers remain key stakeholders in the success or otherwise of the LPM but the challenges they will face compared to the current system could be considerable.

20 SMF/Cushon, "Public attitudes on the pensions 'pot-for-life' proposal", April 2024: https://www.smf.co.uk/wp-content/uploads/2024/04/Up-for-grabs-April-2024.pdf

3. Improving pension scheme member outcomes?

The overriding objective of any new pensions policy initiative should be that it can be expected (with reasonable evidence) to improve outcomes for members.

Indeed, when consulting on LPM, DWP specifically asked if introducing such a model would improve outcomes for Defined Contribution (DC) pension savers compared to current workplace arrangements.

Based on all the available evidence, the SPP does not believe there is compelling evidence to suggest member outcomes would be improved by this model.

Offering consumers choice should not be confused with better outcomes.

As the initial phase of the LPM focuses on members who are keen to make a choice, it is likely to only benefit a minority of highly motivated and engaged investors, who already have the option to transfer assets out of their workplace pension scheme if they feel another pension product is more appropriate.

Multiple pots

Firstly, it is important to understand the size of the multiple small pots issue. In 2020, it was estimated that there were over 8m deferred DC small pots in existence. According to DWP statistics, almost three quarters (73.8%) of these are worth less than £1,000 and over a quarter (25.2%) are smaller than £100[21].

Small pots have long been an issue and were foreseen to be so when automatic enrolment was being introduced, and there is inflight policy to address this.

Outside of small pots, the LPM also seeks to address individuals having multiple pots. However, the proposals put forward in the LPM Call for Evidence would create exponential cost for the industry and employers.

Increased costs for employers could lead to employers lowering pension contributions. There are certainly more cost-effective ways of addressing the issues.

SPP acknowledges that individuals having multiple pots can be a problem and agrees with Government that building up multiple pots can make it difficult for individuals to understand the totality of their pensions savings, can increase barriers to engagement, e.g. multiple online logins and passwords, benefit statements, keeping contact details up-to-date etc.

One way to address the issue of multiple pots would be to build on the existing policy on Pensions Dashboards. When the Dashboard eventually launches, for the first time savers will be able to see all their pension pots in a single place. Providing a single view is likely to be a sufficient *"consolidation"* of savings for some. This view is supported by evidence from the People's Partnership published earlier this year, which found the main driver of consolidation was a simple desire to have all pots in the same place[22].

For others, reducing the administration involved in having multiple pots would be a huge benefit. However, we do not need costly new infrastructure for the LPM when pension dashboards can achieve these outcomes. For example, if policymakers wanted, it would be perfectly possible for a saver to change their name or address through a digital identity verification process via the Pensions dashboard, enabling name and address details to be updated with all pension providers at once. There would need to be some re-work to the way the Dashboard ecosystem to allow data to flow back to providers in this manner, but it would be significantly less than the cost of a LPM.

Consumers can already transfer their pensions between providers and for most modern DC plans this can be done online. However, under current proposals, dashboards will not have transactional capabilities. For the potential of dashboards to be realised and to negate any need for LPM, enhancements such as transactions should be permitted as soon as possible. Savers will quickly become frustrated if they are presented with personal information about a range of small pots, but they have no quick means of taking action to consolidate these.

Likewise, if the information consumers are presented with on first usage is limited, they may not be incentivised to return and/or engagement levels will remain low. If there was an effective Project Delivery Capability Framework, combined with the proposed reforms to the FCA's Advice Guidance Boundary Review and the rules on Consumer Duty, an environment which allowed transactional activities to take place could be created and this would help inform and engage consumers and ultimately result in better consumer outcomes.

21 DWP, Small Pots Working Group, December 2020: https://www.gov.uk/government/publications/small-pension-pots-working-group/small-pots-working-group-report

22 "Savers face being more than £70,000 worse off in retirement due to poor pension transfer decisions" People's Partnership, press release, 19 February 2024: https://peoplespartnership.co.uk/media-centre/press-releases/savers-face-being-more-than-70000-worse-off-in-retirement-due-to-poor-pension-transfer-decisions/

The impact of inertia

The LPM is also likely to create a risk that a saver could end up becoming stuck in the first pension scheme that they are enrolled in. This would mirror the lack of switching in the banking sector, as highlighted earlier in this paper.

In addition, a particular pension scheme may be appropriate for someone when they first start out on their pension journey, but might not remain appropriate when they are further along with their savings, progressed in their career or are approaching retirement. Whilst these savers can always theoretically exercise choice, it is inertia rather than value for money that will likely result in most remaining with the first scheme that they join.

Given policymakers introduced AE specifically to combat consumers inertia in the pensions world, why now consider introducing a model that could encourage another form of pensions inertia?

Increasing disengagement?

Recent research from supporters or an LPM[23] showed that 72% of 1,600 savers who responded to their survey *"favoured the idea"* of having *"the ability to decide where my contributions go."* Leaving aside the fact this may not relate to an LPM but could instead have been interpreted as having investment fund choice within their pension (as most already do) or may refer to having the option to transfer assets out of their workplace pension scheme as many already can and some do, the same survey also revealed that only around a quarter (28%) said they would actually use the option if offered. In other words, the majority of those savers that state they want this, also state they would not use it.

As illustrated earlier in this paper, financial capability around pensions is currently low amongst most UK workers and this inevitably contributed towards disengagement.

Similarly, FCA research published last year indicates that more than half (51%) of adults who are already enrolled in an active DC pension scheme have either *"low"* (24%) or *"very low"* (27%) engagement levels[24]. Interest in pensions usually increases only when consumers are nearing retirement age, by which time it is often too late to take meaningful action to improve likely retirement outcomes.

The LPM is not likely to improve employee engagement, as highlighted elsewhere in this paper, it will probably reduce it further. Given disengagement is already a sizeable problem, policymakers should consider whether reinforcing this problem is an appropriate step to take.

Priorities

SPP believes that there are many bigger pensions issues for policymakers, industry and savers to grapple with ahead of the LPM.

These include ensuring contribution levels are adequate to provide people with a decent retirement income. The minimum AE contributions may have increased from a less than satisfactory 2% on introduction to 8% today but even the Government has admitted *"Current statutory contributions of 8% on a band of earnings are unlikely to give all individuals the retirement to which they aspire"*.[25] Perhaps an understatement considering that the DWP's own research shows that 38% of working age people (equivalent to 12.5 million people) are not saving enough for retirement[26].

Other tasks facing the pensions industry include successfully completing the various other Government policy objectives still being rolled out. These include pensions dashboards, the value-for-money framework, delivering on productive finance initiatives and the introduction of collective defined contribution (CDC) schemes.

By prioritising changes that have already been set in motion, policymakers increase the chances of those policies succeeding, as greater time, energy and resources can be directed at them. Doing so also reduces the chances of LPM being necessary because these other policies, if properly implemented, are likely to solve the problems a LPM is supposed to address – saving the taxpayer, the industry and ultimately savers, a great deal of time and money.

23 SMF/Cushon, "Public attitudes on the pensions 'pot-for-life' proposal", April 2024: https://www.smf.co.uk/wp-content/uploads/2024/04/Up-for-grabs-April-2024.pdf
24 FCA, Financial Lives Survey 2022, published July 2023: https://www.fca.org.uk/financial-lives/financial-lives-2022-survey
25 Government response to DWP Select Committee inquiry, January 2023: https://publications.parliament.uk/pa/cm5803/cmselect/cmworpen/1057/report.html
26 DWP Official Statistics, Analysis of future pension incomes, published March 2023: https://www.gov.uk/government/statistics/analysis-of-future-pension-incomes/analysis-of-future-pension-incomes

Legal and legislative considerations

The introduction of a LPM would obviously require significant amendments to the Pensions Act 2008 (and the regulations made under it) to enable employees to require an employer to contribute to their nominated pension scheme.

Another area that would likely need amendment relates to the fact that we have two different arrangements for providing tax relief on pension contributions: relief at source and net pay. If employers have to direct contributions to some providers who operate net pay and others who operate relief at source, this will result in an increase in the complexity and cost of their payroll operations. With additional complexity also comes a higher risk of errors. SPP considers that this would need to be addressed as part of the introduction of a LPM.

The DWP recognises that there would also need to be various exemptions to the requirement for an employer to contribute to the employee's nominated pension scheme. For example, if the employer provides a more generous defined benefit or CDC scheme or its scheme has more generous features than the employee's nominated scheme.

Many already consider pensions to be overly complex and yet carve-outs from the default position will risk adding further complexity. Very careful thought would therefore need to be given to ensure the LPM does not make the pensions system more complicated.

There is also a risk that employers could dumb down their pension offering as a result of the LPM.

Some employers offer more generous contribution rates to certain categories of employees. This may be as a result of, for example, legacy arrangements, or to reward people in more senior positions or for length of service. If employers face additional costs because they have to contribute through both a central system for those employees where the LPM applies and to their own scheme for those employees where that scheme is more generous, they may instead decide to just adopt the LPM.

The DWP consultation on the LPM made very little mention of the regulatory regime that would be needed for the new model. However, ensuring there is a robust, proactive regulatory regime in place will be critical.

Consideration will need to be given to whether the regulators have the right powers to enable them to engage with schemes and take action where necessary to ensure individuals do not lose out. While having all of an individual's pension savings in one place has advantages, there can also be serious downsides – for example where someone's entire savings are concentrated in an underperforming scheme. Therefore, it will be incumbent on the Regulators to ensure high standards are maintained, particularly given there may be less competitive pressure and less employer engagement.

The introduction of a LPM will take some time, as primary legislation will need to be introduced, the central system for processing contributions would need to be built and tested and there would need to be transitional arrangements to allow a smooth transition from the current system to the new system.

The fact that the pensions dashboard programme has been discussed for more than a decade, was first piloted in early 2017, but that the deadline for schemes to connect to it is now October 2026, gives an indication of how long such projects can take. This means any benefits a LPM may bring (noting that many in the pensions industry question whether it brings any real benefit) is unlikely to help pension savers who are less than a decade away from retiring.

As noted elsewhere in this paper, whatever your views on the LPM, it is hard to argue against the fact that time and effort would be better spent on successfully implementing the projects that are already under way, such as pensions dashboards and the value for money framework, without the distraction of the LPM, because these should have a positive impact for both current and future pension savers.

Conclusion

The main problem that the LPM seeks to solve is that of multiple small pots, which SPP has already acknowledged as an issue requiring attention.

However, this paper has clearly set out that there are number of sizeable challenges and downsides to a LPM.

These include the removal of employer direction and weakening of employee engagement to structural concerns from regulation and the question of being *"too big to fail"* as well as the challenge and cost of directing contributions to a number of different providers.

If an appropriate regulatory regime were to be introduced and all of these challenges and potential downsides were to be addressed, introducing an effective and workable LPM will still take many years and is therefore unlikely to provide any benefit for those who are less than 10 years away from retirement, maybe more.

In light of all of the above, it seems that pursuing better, cheaper, more effective alternatives, most notably a fully operational pensions dashboard system that addresses the problem of multiple small pots, would be a far better use of resources.

As well as making any requirement for a LPM largely redundant, concentrating on other pensions policies that have already been set in motion (dashboards, value for money etc.) also increases the chances of those policies succeeding; a genuine win-win solution.

About The Society of Pension Professionals

Founded in 1958 as the Society of Pension Consultants, today SPP is the representative body for a wide range of providers of pensions advice and services to schemes, trustees and employers. These include actuaries, accountants, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and pension specialists.

Thousands of individuals and pension funds use the services of one or more of the SPP's members, including the overwhelming majority of the 500 largest UK pension funds.

The SPP seeks to harness the expertise of its 85 corporate members - who collectively employ over 15,000 pension professionals - to deliver a positive impact for savers, the pensions industry and its stakeholders including policymakers and regulators.

Further information

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