THE SOCIETY OF PENSION
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SPP response to DWP´s call for evidence: Looking to the future: Great member security and rebalancing risk

We welcome the opportunity to respond to this consultation.

Executive Summary

We welcome all efforts to develop a sustainable long-term strategy for UK pension provision.

However, we have some significant doubts as to whether the lifetime provider model would be suitable for the UK at this time, due to the historical evolution of the UK's current fragmented pensions landscape.

This was also the view of the Small Pots Working Group as evidenced by their recommendations in their December 2020 report to the Minister for Pensions and Financial Inclusion. The issues highlighted by them have not changed, and provide a useful overview (see Annex D on page 72 of the report).

As discussed in more detail in our response, we need to give the many strategic initiatives already being developed or recently rolled out, enough time to succeed and deliver on government aims:

- improving member outcomes and helping savers engage with their pensions by stopping the proliferation of multiple deferred small pension pots;

- further consolidation initiatives such as standardisation of a value-for-members framework (prescribed VFM framework recently introduced for schemes with less than £100M in assets)

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- pension dashboards to enable savers to identify all pension pots and make their own consolidation decisions;

- increased pension scheme investment in longer-term, less liquid assets ("productive finance"); and

- introduction of collective defined contribution schemes (with the multi-employer model soon to be introduced, and the decumulation-only model expected to follow thereafter).

Our view is that it should be possible to achieve the objectives above by pursuing existing DC (and whole-life and decumulation-only multi-employer CDC) initiatives and giving these sufficient time to work. We believe that savers should continue to be auto-enrolled into their new employer's scheme. On changing employment, the saver has the opportunity to benefit from whichever option delivers them the best value, including actively choosing not to consolidate.

There are very distinct flaws in a number of the lifetime provider models currently operating in other countries, in particular stifling innovation and competition, as well as driving a minimum contribution and minimum quality headset. Even where there has been a greater success, as in Australia, a 35-year head start and a very different approach to charges makes the model difficult to compare because of the different starting point. We would urge more extensive and critical international research ahead of any decision to introduce this type of large-scale model to the UK.

The lifetime provider model pushes what is a really important decision onto savers, but without giving them the tools, or in many cases, the capability, to make a good decision, and to keep taking them over the lifetime of their pension savings. One of the reasons why decumulation support will soon become a reality is because of the widescale recognition that many cannot or do not want to take these really important financial decisions. Where they do, sub-optimal decisions are being taken by the majority (FCA stats are still showing the majority of savers still taking cash / large annual withdrawal percentages in drawdown).

<u>**Detailed Response**</u>

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?**

<u>**Key Considerations**</u>

A single lifetime provider model would require several changes and adaptations to the current framework. The following points are just a sample of key points that should be considered when assessing this policy idea:

Occupational DC master trusts v workplace personal pensions

- There are two very different platforms for pension provision, the contract-based personal pension model and the trust-based occupational model, either of which can currently be used by an employer for auto-enrolment.

- We cannot see a lifetime provider model working unless there is only one main platform with a single regulatory regime and common terms for identifying accounts and accountholders and for joining, and exiting, any particular lifetime provider pension

arrangement. The SPP membership includes occupational and workplace personal pension providers, so we do not propose to commend a particular regime, although it is our view that this is a critical element to enable the proposed model.

- A lifetime provider model depends on having pension arrangements which are open to, and can seamlessly accept new contributions from, a subsequent employer of the individual after the link with the first employer has ended. Both the workplace personal pension regime and the master trust regime would need significant adjustments to deal with that structure. For example, terms of admission, possibly the end of the requirement for a proven employer relationship or a change in the nature of the relationship of the sponsoring employer, and reallocation of responsibility for auto-enrolment verification.

If a single platform is chosen for the future there will also need to be a comprehensive bulk transition regime available to move across legacy savings from one regime and relationship to the other. The complexities and scale of such consolidation, and available resources to perform it, imply that there could be a protracted period of upheaval whilst this process played out, with members having very different experiences from one another.

Employer engagement and paternalism

One of the successes of the automatic enrolment system has been to put the onus on employers to offer schemes meeting minimum standards. Employers have in turn pushed the provider market to provide the appropriate products. AE can be strongly contrasted with the previous stakeholder pension regime, where access was the only tangible criterion.

- The lifetime provider model removes that crucial element of employer direction and connection between the employer and employee regarding pensions. At that point, at its simplest, the minimum contributions become a quasi tax on the employer, rather than a means of reward and differentiation. An employer's only means of differentiation is 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. That suggests a downward pressure on contributions towards AE minima for many more employees. That may be even more the case if a central clearing house is used for contributions (see further below).

- That disconnect would remove one of the main current drivers of innovation in the retail workplace pension market – the demand by major employers for tangible differentiation.

- This has been the experience in Chile. The Call for Evidence cites Chile as a good example of the lifetime provider model, but our understanding is that the result has been a closed market, with State intervention required to introduce any new players, and innovation a lost cause (see a report published in 2024 by Chile´s Minister of Finance, in particular Chapter 2). Chile´s experience is that employers see pensions as a "payment", and take no role in or responsibility for pensions provision. Some employers are even afraid of engaging in the pensions conversation, as pensions are thought of as "personal" and not something that should be influenced externally.

There will always be exceptions. Higher pension contributions will still be valued by many workers, particularly in the financial services sector, and you could see a high correlation between those who valued higher contributions and those who were happy choosing their own pension provider.

A lifetime provider model may also, for the financially-aware, lead to consolidation of third pillar pension arrangements with the lifetime provider account. The question is whether that engagement would spread to a wider population.

The Call for Evidence sketches a scene of ever-diminishing paternalism. Paternalism as originally understood, rewarding loyalty and long service, may be more limited now, but there is still a very real drive for differentiation of remuneration and benefits to attract the right workforce. That leads to innovation, as we have seen in the occupational health and well-being market. That begs the question as to how the future pensions landscape would look.

- If a lifetime provider model breaks the link to good or better pension provision as a useful differentiator for employers, market competition on quality between providers may diminish, leaving the government to regulate and monitor the quality of pension provision and to legislate for improvements, rather than the push coming from employers demanding better quality pension provision.

- The Call for Evidence targets ensuring "we continue to encourage employers and their schemes to provide more generous benefits". One way this may happen is by pillar 2 pension provision sub-dividing into a minimum contribution sector of lifetime provider accounts and separate tailored supplementary arrangements offered by employers. For example, in Chile this has not happened: only very few employers offer voluntary arrangements, but the UK has a legacy of employer-sponsored pension provision so may well have a different experience.

- However the Call for Evidence focuses on exemptions as the way to encourage employer generosity. An exemption whereby an employer can insist on contributions going to a specific employer-sponsored arrangement is likely to depend on quality criteria. That could easily end up looking a lot like reintroducing contracting-out, with all the complexity that comes with that system. We would urge careful consideration before heading back down that path.

- As explained below, the pricing model will make such separate arrangements expensive.

Member engagement

- Currently, the majority of savers are not engaged with pensions and are unlikely to analyse critically the lifetime provider they have chosen (or inherited, e.g. if it is a default option selected by their first employer). If savers select their provider, it is expected that many will not reassess their choice during their working lifetime, even though the initial choice may become inappropriate as careers, salaries and objectives evolve. As above, there are several unresolved questions on how members will select a provider "for life":

    - Should a default lifetime provider be available, or imposed, for individuals not willing to select their own pension provider? E.g. from the proposed default consolidator carousel system?

    - If an individual's first pension arrangement ceases to provide, or does not, provide value for money and good returns, how is the unengaged individual to be protected? In that sense, features that might appeal to a young person compelled to designate a first plan are unlikely to be those that would be of benefit to a

saver further through their earning career but inertia, and not value for money, will keep many with that first plan.

- There is also a risk of unethical promotion by commercial lifetime providers to get as much assets under management as possible. For example, through attractive advertising or nudges from financial advisers that are not inherently related to a good or better pension outcome for the individual.

- It must be noted that employers have been instrumental in encouraging better saving, for example, through matching contributions arrangements. We would expect removing the employer from the driving seat would significantly reduce the amount of messaging around the benefit and value of pension savings.

- As a result, even if lifetime provider accounts were to increase an individual's connection to their savings, it is unlikely by itself to lead to increased contributions.

We do not agree that ensuring a longer-term connection between a member and their pension savings pot will, necessarily, lead to better tailoring of products to member needs.

Pricing and costs

- In the commercial retail market, pricing depends on the underwriting. Underwritten workplace pricing works on the premise of predictable asset and cash flows together with workforce/industry turnover.
    - Logically, if a continuous and significant flow of contributions is ensured to a particular arrangement, per-head costs should decrease[1].
    - Conversely if providers are dependent on an open market for new joiners, profit margins will be smaller where maximum charges apply, leading to pressure on choice, functionality and innovation.
    - This model cannot, therefore, operate in a lifetime provider model in which members could be more closely influenced by clever advertising and aggressive promotions than by scheme quality. In its place, we would expect that lifetime providers will introduce underwriting techniques which reflect what they believe will be the individual member's value to their business over time. Clearly, this would imply a swing towards selective pricing which would increase the fees for the lower-paid and those who are expected to have career interruptions such as maternity leave (subject to legal protection against prohibited discrimination).
    - There is, therefore, a risk that such underwriting practices will benefit the few at the expense of the many – a de-facto reversal of the current subsidies within DC pensions. This comment is made not to demean providers' ethics but to accentuate the financial realities of running DC pensions.

[1] Note: Administrative and investment costs should reduce where the cost of the platform and overheads are spread amongst a large number of members. The same is not necessarily true yet though of investment returns, although a lot depends on the provider's approach to charges and sophistication of investment approach. The DWP 2023 report "Trends in the defined contribution trust-based pensions market" shows no correlation between asset size of Master Trusts/GPPs and investment performance (see paragraph 30 of the quoted report).

- Large employers are currently able to obtain significantly better pricing/quality for their workforces because providers can be confident of a continuous and significant flow of contributions as the employer partners with a particular master trust or workplace personal pension provider.

- In an employer-sponsored scheme, those members who have larger pots (generally the more senior/ older/higher-paid employees) essentially subsidise lower-paid employees in the same workforce through the AMC charging mechanism. It is one of the benefits of contributing via an employer-sponsored arrangement. That implicit cross-subsidy is lost with the lifetime provider model.

- Where it is for the individual to choose their provider, all the benefits of "scale" from contracting through the same employer are lost. Moreover, many individuals will not have the tools or knowledge about pensions to ensure the selection of the optimal arrangement. And, as people are likely to stick to the same provider for most if not all of their career, fees and other costs can be increased over time by providers, knowing that only a minor fraction of employees would move to another provider.

Although an employer's scheme could have poorer outcomes if it has fewer employees joining it, this effect can be counteracted to a degree by partnering with the same provider as larger employers, benefiting from the innovation and development that the provider can bring with scale.

Minimum standards, value for money and competition

- We agree that any lifetime provider model would need to come with minimum standards for the protection of members. However, we question whether minimum standards actually translate into value for money, which has to be a key driver for any legislative change.

- Value for money comes from pressure in the market, either directly or via regulation, to improve. The lifetime provider model will inevitably result in further disengagement by employers with respect to their employees' pension provision. This has already been seen with current consolidation and centralisation of pension provision - outsourced arrangements are typically considered at arms-length and have less employer involvement. Where employers are not engaged with the value proposition, they will not drive improvements in the market. In this scenario, it is unlikely that disengaged and non-well-informed individuals will (in the absence of employer support) be able to drive market improvements, let alone if we factor in inertia and the lack of scale of non-coordinated individuals.

- Providers may end up only competing in ways that are not beneficial to savers – such as via advertising spend to grab new entrants to the employment market rather than quality of service and level of charges.

- The Australian experience has been of competition on investment returns, but with much higher average member investment charges than the UK to reflect the complexity and risk that come with seeking high returns. The UK approach to member charges would need to change significantly to make risk-seeking a bigger part of the overall portfolio.

- Inertia is very powerful. People are likely to stick with their original or early provider not necessarily because they want to think it is the best option, but because they take the path of least (administrative) resistance or because they are unaware of their options.[2] There are ample examples of the power of inertia with other, less sophisticated but still challenging, purchases such as switching energy, bank, mobile or internet services providers.

The UK DC authorised master trust market regime has already demonstrated that new entrants, even with very significant backing, may struggle to make headway in a market where size (AUM) is everything. A truly competitive market will therefore be difficult to achieve. The issue to consider is how much State-regulated "competition" there should be. As an example, Chile has a system where new entrants compete for having exclusive access to new joiners for a minimum period to build up scale quickly (two years), with capped fees for that period of time. However, that is in the context of an effective oligopoly of around seven major players and has not been enough to drive fees to an optimal point.[3]

Automatic enrolment

The current automatic enrolment and re-enrolment system relies on a direct relationship between the employer and the provider to police compliance, check minimum contributions and admission, and put employees in, or back in, a plan.

Qualification criteria for enrolment/re-enrolment can remain the same, but there will need to be adjustments to the legislative requirements to cater for a more hands-off arrangement like a lifetime provider model. We have listed a few examples below.

- The strict timelines for enrolment of new hires and re-enrolment of opt-outs will need to be extended to include time for the employee to provide their relevant lifetime provider details (plus, potentially, confirmation from a central clearing house) or lacking that, the mechanism to designate a new/first provider.

- Any residual responsibility left with employers to select a qualifying scheme should be severely limited, for example where the central clearing house confirms there is no relevant lifetime provider arrangement for the individual and the individual has also failed to designate a new provider within a specified period.

- Enrolment of non-qualifying employees at their request would need to include designation by the individual of a suitable lifetime provider account and checks with the central clearing house.

- The opt-out mechanism would need rethinking as would the system of whistleblowing, reporting and regulation of non-payment of contributions.

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[2] For instance, see Thaler, Richard H., and Cass R. Sunstein. 2009. *Nudge*. New York, NY: Penguin. In particular, see Chapter 6 ("Save More Tomorrow").

[3] Despite the success of this regulatory tool in driving a reduction in fees from other providers, the Chilean market still has fees between 0.49% to 1.45% of pensionable salary (which is capped), paid monthly. In practice, the regulatory approach has incentivised competitors to offer a very low fee over the "protected period", with the expectation of recovering the losses afterwards by increasing the fees once the cap is no longer applicable. As the new savers will tend to stick with their provider, only a minority will change providers later, even if it would be in their interests to do so. The current situation shows a concentrated market behaviour (fees over 1%), with only two providers with low fees (one of them the winner of the latest bid). Information (in Spanish, see point 1) up to January 2024 is accessible at this link of the Chilean Pensions Regulator Website: https://www.spensiones.cl/infoydec

Payment processes

Under the current system, employers' payroll systems make a bulk transfer of contributions to the relevant scheme or provider with an associated data transfer to use for allocation of contributions to member accounts.

- A transition to a lifetime provider model would splinter those processes – each employee and their plan will need to be tracked individually, and employers will need to transfer contributions employee by employee. That will involve some transitional costs in reconfiguring both payroll and provider receipt processes, although we would expect bulk processes to become available once again if the market coalesces around a few large providers.

- Greater standardisation of processes between pension providers and payroll providers may have to follow. That might mean a common approach to identifying lifetime provider accounts and accountholders. National insurance numbers may be useful here, but as recognised by the Pensions Dashboards project, are not universally applicable.

- There could be a role for an authorised central clearing house to process and match mandatory contributions to accounts, as is the model in some other jurisdictions. Cost and ownership would need to be considered carefully. Employers may not be willing to meet the additional costs of such a system. However, a State-sponsored central clearing house to track and "pull" contributions from employers and distribute them would necessitate a significant shift of administrative responsibility to the State. Either way, we believe there is a risk that the authorisation process for any such clearing house will be interpreted by members as meaning that the State has ultimate responsibility for outcomes.

Letting the pipeline changes run first

A number of very significant recent and forthcoming changes in pension regulation are expected to make the member experience look very different in ten years' time. We believe those changes need time to bed in and for the wider workforce to get used to them before the UK market will be ready for anything like a lifetime provider model. We would urge caution before committing the UK to a path which may, once the full impact of the changes below is felt, be thought to throw out many of the advantages of the current employer-sponsored system while not improving many of the recognised problems.

- **Dashboards**

- Once this platform is up and running, we expect there to be a step-change in how a member of the public sees, understands and interacts with their own pension pots and entitlements. Innovation within qualifying dashboard models is yet to be articulated publicly but we would expect significant innovation that will enable members to view all of their pension savings as a combined portfolio with transactional capabilities That will need time to become the norm though.

- We would strongly support the development of financial education in the school curriculum to include pension pots and dashboards.

- We also expect the retail market to fill in behind – once the public can see and compare their arrangements, we would expect marketing to evolve to show the advantages a particular product offers to compare apples with apples. That may also encourage innovation where differentiation in price has become marginal.

- However, dashboards in their current guise will not themselves facilitate the consolidation of savings. For that there needs to be a second phase, facilitating transfers. That phase will need very careful thought on how to mitigate the risk of scams and over-hasty decision-making.

➢ **Small pot consolidation**

- We expect this initiative to lead to a very significant consolidation of the provider market.

- We can also see scope for this structure, once well-established, to open the way for automatic, or at least facilitated, consolidation of legacy pots in both the master trust and personal pension markets. The July 2023 Government response "Ending the proliferation of deferred small pots" identified an existing small pot pool of just under £30bn AUM with nearly 2/3rds of all pots valued at under £1000. If the Government hopes to deliver increased investment in productive finance in the foreseeable future, that existing pot needs to be targeted as well. However, to capture that pot the Government would need to seize the nettle of high transfer charges and other bars to exiting legacy poor value arrangements.

➢ **Value for money**

- Value for members and value for money is very much in its infancy. Although the reporting requirements are now in place, it is clear that it will take a number of years for reporting to settle into a model that itself provides value to members of the public. It is poorly understood, and the mismatches and conflicts between the personal pension market and the occupational pension market continue to produce a confusing picture.

- Regulation has put the onus on trustees of trust schemes and IGCs of workplace personal pensions to evaluate value for money and drive improvement or seek consolidation. However, this has missed the reality that change or consolidation costs money. Occupational schemes are currently sponsored by employers and change will only be viable where the employer supports, drives, and pays for improvement and/or consolidation. Otherwise, change can only come at a direct cost to member pots, to pay for the change project and the asset transfers. Inevitably the dividend from any VFM change is likely to go more to younger members than those with few years left to benefit.

- The requirement for poorly performing schemes to wind-up and consolidate will also take a long time to flow through. More thought may be needed on how to ensure that net of transfer costs, transfer to receiving consolidators does provide better value for members.

- We expect there to be considerable evolution and risk to members, in this area, which will take time to bed down and may need further regulatory intervention.

- However if VFM does have the intended outcome, the market should consolidate significantly.

- **Required decumulation offerings**

- If all employer-sponsored arrangements are required to offer, or partner up with, decumulation options, this will again change the market. Operating decumulation successfully involves significant investment in systems and administration, and increased risk to the provider, which is why a lot of single/group employer occupational DC trust-based schemes do not engage in this area.

- There are a number of ways the market could go once all schemes have to facilitate decumulation, and again, this evolution is likely to affect the longer-term solution.

- **Automatic enrolment extensions**

- One of the fundamental aims behind automatic enrolment is to make individuals save for their retirement and, therefore, reduce reliance on State benefits. We believe it is well-recognised that the current minimum contribution requirements are simply not sufficient to provide a living income in old age, irrespective of how much investment return could be tweaked via access to productive finance. That means the Government should be prioritising rolling out the changes from the recent Pensions (Extension of Automatic Enrolment) Act 2023 and increasing employee and employer contribution rates.

<u>What needs to be in place first?</u>

We see the elements below as important steps to consider before any move could be made to a lifetime provider model:

- A fully operational dashboard offering with all existing pension arrangements connected.

- A significant reduction in the size and complexity of the provider market, or at least the authorised provider market, before opening up the option of lifetime provider pension accounts.

- Re-working of the transfer regime to make consolidation by individuals easier, for example, via a set of authorised providers who are required to accept other transfers (e.g. in return for the right to participation in the default consolidator structure).

- A minimum set of quality criteria to be met by lifetime provider schemes, including accountability for value for money.

- A viable solution for existing legacy arrangements, starting with but not limited to small pots.

On top of the above, there are a number of options discussed in this response which, if adopted, would also need to be in place in good time:

- A central, government-mandated/provided clearing house to receive and pass on contributions.

- A common unique identification system for individuals and pension accounts to re-enable bulk payroll transfers once the current single employer-sponsored scheme system ends, and still ensure contributions find their way into an individual's designated lifetime provider pension account.

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?**

CDC

Offering a CDC option at retirement would certainly be an attractive part of any decumulation solution for many DC savers, but the regulations covering decumulation-only CDC would need to be brought forward and finalised before DC schemes could offer this.

We question whether CDC (in its current legislative form) will provide a complete solution in the foreseeable future. More importantly, we can foresee challenges for CDC in a lifetime provider model. CDC schemes require significant scale to be maintained and would be very challenging to manage in a “run-off”. A small pool of lifetime providers should help with generating scale but the impact on CDC may depend on everyone being pushed into CDC.

There are some other challenges with CDC in a lifetime provider model:

- Potentially, pension cuts in a CDC world could trigger a large-scale knee-jerk reaction of members leaving, which may have an adverse impact on the rest of the fund and not be in members' best interests (if the fund's assets subsequently rebound). Such a decision may therefore be better left in the hands of more informed/engaged entities (i.e. the employer or trustee).

- There is a potentially greater risk of younger individuals being encouraged to opt out en masse (because individual DC may be better for them from a volatility perspective), which could drastically change the maturity and outcomes of the remaining fund.

As a result, we expect that the already challenging financial dynamics of CDC would become even more challenging in a bulk retail market compared with the existing employer-led market.

Transformation of the decumulation phase

The proposed new framework requiring trust-based DC schemes to offer a suitable range of decumulation options should result in a degree of standardisation of decumulation offerings, and potentially better information for members. TPR guidance and further work on “Helping Savers” is needed.

Extending pension flexibilities to include CDC, so retirees also have this option at retirement and are aided with their decision-making, may have an impact on the market. However, as referenced above, we believe the financial uncertainties of member selection versus employer selection - over potentially long time periods – would make managing CDC solutions much more complex and less viable.

Improvements to the existing market

The virtue of the lifetime provider model is that it is easier for a saver to keep track of their pensions and it is a generally held belief that the larger the pot the more engaged the saver is. We would suggest the same effect could be achieved in the current market by retaining the status quo but making it much easier for savers to consolidate their pension pots. Elements here which need improvement include:

- simplifying the transfer out process;

- employing better tools and permitting simpler reporting to allow members to easily compare the VFM of existing and new schemes;
- legislation requiring all commercially offered schemes to allow transfers-in;
- new functionality to allow consolidation of pots on/via dashboards
- legislation to automatically consolidate pots within the same scheme while still retaining any beneficial terms/tax status.

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?

Please see our comments in response to earlier questions. Some specific elements would be:

- a review of the current Financial Services Compensation Protection regime, in particular over the current limits which, logic suggests, would need to be increased substantially to reflect higher savings' values;

- minimum (but good quality) criteria for lifetime provider schemes, including ongoing regulatory oversight;

- improvement of the VFM assessment process with greater simplicity, transparency and comparability of results;

- controls over marketing and advertising methods/techniques;

- tackling any shortcomings from similar models overseas in the design, implementation and ongoing operation of any lifetime provider model, noting that some issues could be even more difficult to solve in the current UK context or inherent to the regulatory design (e.g., the inertia to switch provider or the asymmetry of information between individuals and providers);

- consideration of the mechanics of the selection/enrolment process:

    - should employers have a default designated arrangement for automatic enrolment of new hires unless the new hire makes a positive choice for contributions to be directed to their lifetime provider scheme?

    - a system permitting new employers to check whether a new hire has previously nominated a lifetime provider scheme (e.g. via development of the pension dashboard system) so that the employer can direct contributions to this scheme.

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?

At the superficial level, a lifetime provider structure sounds appealing. For an individual, having a single pension pot with the ability to change provider along the way is simple to understand. In an ideal world there might be:

- simple, high quality and highly regulated product selection;

- limited choice with the selection process on a par with choosing a current account (or ISA provider);

- lifetime pension products available alongside other savings products under umbrella brands;

- an authorisation process which, members might assume, acts as a guarantor of the product quality. This introduces the risk that a regulator (and, by extension, the Government) would have to assume liability for failures, poor administration, cyber and fraud losses and underperformance;

- free access to information and guidance at each point along the way; and

- education for school leavers/workplace entrants and re-entrants on what they have to do when they join the workforce.

However, for the reasons given in our earlier responses, we question if this would be the reality.

One of the DWP's key themes is the desire for consolidation of the market to produce larger funds which might lead to greater investment in productive finance. However, without certain and successful intervention and regulation from the Government and other stakeholders, the member-led lifetime provider model might hinder this process and could, in fact, lead to more fragmentation.

By definition, this model will be of most interest to those already engaged with their pension savings and/or with significant pension savings and with access to financial advisers. We can expect an even greater diaspora of pots to individual SIPP arrangements. This may be accompanied by consolidation of savings, but only amongst those who would be expected to do so by the time of retirement in any event.

We can see scope for another feeding frenzy in the IFA industry, much as was the case with mis-selling of personal pensions back in the day unless there is:

- appropriate protection from the outset for employees starting down such a path, such as minimum quality and charging requirements, value for money audits (and consequences for poor value) – this could lead to stringent regulations and a greater emphasis on defaulting individuals into pension decisions;

- clear information on the additional costs the member would assume compared to treatment of costs in the employer-sponsored scheme (and any associated contribution differential) to compare like with like.

Would a member-led model involve employer consent to participation? We can see a them-and-us situation arising where an employer may be willing to go the extra mile for executives, but not for the main workforce.

However, if no employer agreement is needed, and an employee can force the re-direction of contributions, there could be some significant disadvantages from the employer's perspective:

- We have mentioned earlier the transitional costs which we expect to be incurred in switching from a bulk payroll process to individual contribution payments. There will be increased administrative complexity in making individual payments to a number of different

schemes, compared with that of a single bulk payroll process with one pension provider or master trust chosen by the employer. Those costs will come in early with a member-led process and before there is the scope to develop new bulk solutions.

- Any development of a government-sponsored central clearing house structure and/or unique member/pot identifiers is likely to lag behind.

- The effect of losing contributions in respect of the better-paid, more financially engaged members of a particular workforce may be to increase average per-member costs in the remaining employer-sponsored scheme – the cross-subsidy from larger accounts is reduced.

- Either scheme administration costs are met directly by employers by way of a separate flow of income to the scheme, or the employer contribution rate to active member accounts can be seen as defraying account-level administrative charges, but either way, the employer takes on part of the cost of administering the scheme. Spread over the whole workforce, this is a small cost per employee. However, that per-employee commitment increases if not all employees are joining the scheme.

- We could see employers seeking to reflect the inconvenience of payments to multiple plans via differentiated contribution rates. There could be a logic in restricting contributions if required to pay to an external lifetime provider account, with higher contributions being paid for membership of the employer scheme or a designated master trust. Supporting individual contribution arrangements may make more sense at the senior/high-paid level.

We can see challenges with aligning a member-led lifetime provider option with auto-enrolment obligations. Clearly, it should not be considered an opt-out, but equally, the employer cannot reasonably be expected to track membership and assume responsibility for information and re-enrolment where there is no connection to the underlying scheme. How would this be regulated?

If a government-sponsored central clearing house and unique member/pot identifiers were present from the outset, at the macro level it could be a chance for schemes and payroll providers to test that their processes work as intended, and to make amendments to these processes as necessary.

However, the costs of setting up the full system would be disproportionate to the benefits unless there were only a short gap between a member-led test phase and a UK-wide compulsory roll-out.

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?

As discussed above, we think any development of a lifetime provider model should wait for the existing initiatives, coupled with the market trends we are seeing towards greater consolidation, to bed in. We believe they will help with many of the issues which the new lifetime provider idea seeks to address.

Response ends.-

Yours faithfully,

Giannis Waymouth,
Chair, Defined Contribution Committee, SPP

Fred Emden
Chief Executive, SPP

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