The Society of Pension Professionals (SPP) response to the DWP consultation, "Small Pots: a pathway for consolidation"

1. Executive summary

1.1. **The SPP supports the Government's objective of reducing the number of small, deferred defined contribution (DC) pension pots through automatic consolidation.**
If implemented effectively, these reforms have the potential to reduce fragmentation, improve administrative efficiency and support better member outcomes. However, it is important that the framework is proportionate, operationally workable and does not expose members to avoidable detriment or unnecessary transfers.

1.2. **Several changes would strengthen these proposals.** In particular, we recommend a 15-month dormancy period, rather than 12 months, supported by a statutory review after three years. Self-select pots should be treated on the same basis as default-invested pots, and clearer employer notification requirements should help schemes distinguish genuine deferred pots from temporary breaks in pension saving.

1.3. **Protecting members' existing rights is critical.** The SPP recommends that specified guarantees and protections, including Guaranteed Annuity Rates, protected tax-free cash rights, enhanced tax protections and protected retirement ages, should be automatically excluded from consolidation. Government should establish an industry-developed catalogue of protected rights, supported by consistent classification standards, regulatory guidance and appropriate safeguards where scheme records are incomplete. The preservation of Protected Pension Ages also requires early industry guidance and robust testing of consolidators' operational capability.

1.4. **The SPP supports clear and proportionate authorisation requirements for consolidators, covering financial sustainability, operational resilience, governance, scale and value for money (VfM).** These factors should be assessed together: asset size alone does not demonstrate that a scheme can absorb significant transfer volumes while maintaining service quality. VfM should remain an ongoing requirement, with the FCA and The Pensions Regulator (TPR) monitoring charges, investment outcomes, administration standards and complaints after implementation. Existing regulatory frameworks should be used wherever possible to avoid unnecessary duplication.

1.5. **Member communications should be clear, consistent and concise, explaining the proposed transfer, the member's options and the consequences of taking no action.** The SPP favours an industry-standard information insert, supported by accessible online information and alternative formats for members who need them. A review after 18 months would help identify common questions and improve communications in light of experience. Members should also be able to select an alternative consolidator for subsequent transfers, rather than being restricted to their existing consolidator.

1.6. **Employer data requirements should improve the accuracy of member records without imposing unnecessary administrative burdens**. The SPP supports a 12-month period for initial data updates and annual updates thereafter, but does not consider wholesale recapture of dates of birth necessary. Data standards should remain aligned with pensions dashboards, and temporary employment absences should be identified through clear member-status reporting rather than reliance on employers predicting future intentions.

1.7. **Early regulatory clarity, meaningful industry engagement and effective post-implementation monitoring will be essential to success.**

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2. Consultation response

Question 1: Do you agree with the proposals set out in this chapter? Are there any unintended risks or consequences that may arise from these proposals outlined above?

2.1. The SPP agrees with the principle of a defined dormancy period and agrees that a clear trigger is necessary to make the framework operationally effective.

2.2. However, the SPP does not consider that pots invested in self-select arrangements should be treated differently from those invested in default arrangements for the purposes of small pot consolidation. The fact that a member previously selected their investments does not necessarily indicate that they remain engaged with their pension or are more likely to take an active decision about consolidation. Excluding these pots risks perpetuating fragmentation without clear evidence that members would benefit from different treatment.

2.3. Self-select pots should therefore be eligible for consolidation on the same basis as default-invested pots, subject to appropriate safeguards for members' investment choices and any associated protections.

2.4. With regard to the timescale, many of our members believe the proposed 12-month period creates a material risk of avoidable transfers for members who experience extended periods away from work. Whilst there are mixed views as to what a reasonable alternative would be – 13, 15, 18 or 24 months – most members who expressed a view on this issue supported a 15 month period.

2.5. We recognise that paragraphs 29-30 of the consultation document explain the 12-month threshold as reflecting typical labour-market patterns and distinguishing short breaks from genuine cessation of saving, and that paragraph 32 raises a concern that extending this period would delay consolidation activity and increase inefficiencies. We do not consider that a modest extension to 15 months would materially undermine that objective, since it would only affect the subset of pots where a break happens to fall between 12 and 15 months, while meaningfully reducing the number of members affected by an avoidable transfer during, for example, a period of statutory maternity leave (which can run for up to 52 weeks). We acknowledge that other stakeholders have already raised this same concern, and that the Department is currently gathering further evidence on this.

2.6. Paragraphs 30 and 33 recognise that breaks in pension saving may arise due to maternity leave, career breaks, overseas work assignments, long-term illness, seasonal working patterns and other temporary employment interruptions. The consultation relies significantly on employers identifying these circumstances correctly and communicating this information to pension schemes. In practice, administrators experience significant variability in the quality, timeliness and completeness of employment-status information supplied by employers. As a result, a pot may become eligible for consolidation despite there being a realistic prospect of contributions recommencing.

2.7. Para 33 says - in such cases, pension schemes will be expected to take account of relevant information, *potentially provided by employers,* as set out in Chapter 7, and temporarily exclude these pots from consolidation for a defined period. We believe there should there be a more explicit notification duty under chapter 7. There is obviously already a process prescribed in some instances, such as statutory leave and opt outs, but this needs to be expanded to clarify the exact employer information duties and the legal basis for these requirements.

2.8. We therefore suggest an initial 15-month dormancy period with a statutory review after three years of operation. We suggest 15-months rather than 24-months as the impact of the longer period may dilute the effectiveness of the reforms when applied to a £1,000 pot limit. However, a 15-months dormancy period should reduce the number small pots incorrectly identified, not least by giving employers more leeway when reporting this information to scheme trustees on an annual basis.

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2.9. We welcome the temporary exclusion mechanism proposed in paragraph 33, under which a scheme may exclude a pot for "a defined period" where relevant information is available, with a further 12 months of inactivity before consolidation would then apply. This period is not specified in the consultation; we suggest it be clarified and, where a member's circumstances are known (for example, a period of statutory maternity leave), aligned to the statutory duration of that absence rather than left to individual scheme discretion.

2.10. Paragraph 33 also allows a member to opt out of consolidation where they know they intend to resume contributions. We read this as the general opt-out right described in paragraphs 71-77, exercised during the 30-day notice period after a transfer notice has already been issued, that is, only once a pot has already reached 12 months of inactivity and been flagged as eligible. This is a reactive safeguard: it depends on the member noticing and responding to a notice after the event, for a population that is, by definition, low engagement.

2.11. One option worth considering is prompting members to flag a break in contributions directly to the scheme, reducing reliance on employer reporting.

2.12. These proposals would reduce unnecessary transfer activity (and therefore unnecessary cost and complication to schemes) whilst still delivering substantial reductions in the stock of small pots.

2.13. The SPP believes that the opt-in proposal in paragraph 58 of the consultation document is unnecessarily complex and risks undermining the purpose of the Multiple Default Consolidator (MDC) solution, namely to simplify pension provision, reduce fragmentation and eliminate avoidable administrative costs.

2.14. The Government's own rationale for consolidation recognises the problem of low member engagement and the need for a system that operates effectively without requiring members to take active decisions or initiate action. Against that background, introducing a separate opt-in process for pots exempted from automatic consolidation because a guarantee cannot be retained appears contradictory. It requires schemes to undertake additional administrative work, issue further communications explaining potentially complex pension rights and transfer consequences, and establish a process for receiving and implementing individual instructions. It also places the burden on members, who may be disengaged from their pension arrangements and ill-equipped to assess the value of a guarantee or the long-term implications of surrendering it. There is also a clear risk that the very members whom consolidation is intended to benefit, will make decisions without fully understanding the consequences.

2.15. The SPP believes that the government should clarify its thinking here beyond "preserving member choice", demonstrating what tangible member benefit justifies this additional complexity, including the likely take-up, implementation costs and operational risks. Preserving member choice is important, but it should not become a justification for creating disproportionate administrative requirements that increase costs for schemes and potentially undermine the overall effectiveness of consolidation. Imposing a resource-intensive opt-in process that is likely to add complexity without delivering commensurate benefits is not something that the SPP can currently support.

Question 2: Can schemes reliably identify pots that have guarantees attached? Are there operational or administrative risks that could threaten the effective retention of guarantees for members. For example, data quality?

2.16. While many schemes can reliably identify guarantees, market confidence varies. Legacy schemes frequently hold incomplete historic records, paper files, or off-system protections. Contrary to the consultation's assumption, schemes cannot always identify guarantees easily, and members often only declare protections upon drawing benefits.

2.17. While group-level decision-making (paragraph 51) offers operational benefits, it risks overlooking individual circumstances and causing delays. Evaluating potential losses on exceedingly small pots also creates disproportionate cost and time burdens.

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2.18. To resolve these issues, all guaranteed benefits should be excluded from scope to eliminate complex trustee decisions (see Question 3).

2.19. Secondly, transfers for guaranteed pots valued at £500 or less should be automatically permitted, where the potential loss of protection value is negligible but this exception should be strictly conditional on the scheme being affirmatively satisfied that the underlying guarantee carries no material value. Pot size alone does not demonstrate that the loss of protection is negligible.

2.20. Finally, for remaining in-scope pots with guarantees, the government should introduce industry-wide classification standards, a statutory safe harbour for trustees taking reasonable steps, and detailed regulator guidance.

2.21. While the proposed transfer notice and record-keeping safeguard (paragraphs 58–60) is helpful, it only applies *after* a guarantee is identified. It does not mitigate the risk of unidentified guarantees due to poor scheme records. To address this gap, the pre-consolidation notice should explicitly prompt members to confirm any known guarantees or protections before a transfer proceeds.

2.22. The above would improve consistency while reducing operational and legal risks.

2.23. The SPP supports the overall objective of establishing clear and robust standards for schemes wishing to act as consolidators. Where consolidation takes place without an active member decision, it is important that members are transferred into arrangements that are financially sustainable, operationally capable, well governed and provide good value for money.

2.24. We support the proposed requirements relating to eligible pots, automatic enrolment, preservation of protected pension ages and the use of a single consolidator arrangement. We also recognise the particular operational demands associated with receiving potentially large volumes of small pots.

2.25. There are, however, some risks which should be monitored.

2.26. First, scale, financial sustainability, operational capability and VfM should be considered together. A scheme may have significant assets but lack the administrative capacity or systems capability to absorb large volumes of transfers without affecting service quality.

2.27. Secondly, the framework should avoid creating different charging or service outcomes for members simply because they entered the same scheme through different routes. This is particularly relevant to the proposed review of the flat-fee de minimis.

2.28. Thirdly, there is a risk that schemes could focus on meeting the formal consolidator criteria without delivering better outcomes in practice. VfM should therefore be an ongoing consideration rather than simply an entry requirement.

2.29. Finally, the FCA and TPR should monitor the operation of the consolidator regime after implementation, including charges, investment outcomes, service standards, complaints, transfer volumes and operational incidents. This would be consistent with the FCA's wider approach to monitoring the impact of changes in the pensions market.

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Question 3: Are there any guarantees or protections that should automatically be out of scope from trustee and scheme manager discretion?

2.30. We recognise that paragraphs 49-50 of the consultation document set out a preference for a proportionate, discretion-based approach rather than a blanket exclusion of all pots containing guarantees. However, question 3 specifically invites views on categories that should sit outside that discretion, and we consider the protections below warrant that treatment given the scale of potential member detriment if they are lost.

2.31. We believe that operating trustee discretion may cause delays and use up valuable trustee time. Some schemes may be able to make broad decisions on a limited number of categories, but many more cases will still need to be decided individually if this task is to be carried out properly. We believe that if trustee discretion is to remain as part of the small pots process then certain protections should fall outside trustee discretion and remain outside the small pots proposals.

2.32. These should include:

- Guaranteed Annuity Rates.
- Protected tax-free cash rights.
- Enhanced tax protections.
- Significant survivor benefits.
- Scheme-specific protected retirement ages.
- Protected lump-sum rights.

2.33. These benefits can have values that significantly exceed pot values.

2.34. We would also welcome clarification of how the proposals would treat pots with only a partial guarantee, for example where a protection attaches to part of the fund built up before a certain date. The value-comparison test proposed in paragraph 53 appears to be applied at the level of the whole pot; it is not clear whether a partial guarantee would result in the whole pot being excluded, or only the guaranteed portion, and this distinction has significant practical implications for scheme administration.

2.35. Where a guarantee applies only to part of a pot it would probably make sense for the entire pot to remain outside automatic consolidation unless the protected element can be cleanly separated without any detriment to the member.

2.36. The list of guarantees needs to be kept under periodic review, using the notification mechanism proposed in Question 5, to capture new protection types as they are identified.

2.37. The above will create consistency across the industry and automatically protects members.

Question 4: How frequently does the situation arise where preservation of a PPA must be considered? Do you think the proposed approach would work administratively, or is there a better way of achieving the same outcomes for members?

2.38. DC schemes accepting transfers will already have quite a few of these and these numbers are expected to increase substantially following the increase in NMPA to 57.
Whilst the proposed approach is workable, it introduces considerable operational complexity.

2.39. The success of the approach depends heavily on accurate historical records; successful block transfer structures; and careful monitoring of transfer conditions.

2.40. TPR and the FCA should be required, as part of authorisation and ongoing supervision, to test a consolidator's operational capability to execute PPA-preserving block transfers at volume, for example through a mandatory pre-authorisation dry run, rather than relying on a stated capability that is not independently verified.

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2.41. The SPP suggests that standard industry guidance and a centralised decision framework should be developed.

2.42. We note that paragraph 104 already anticipates further detail being provided through TPR codes of practice and FCA rules. We suggest this work explicitly include a centralised decision framework, and the operational testing standard proposed above, brought forward early in the 2030 implementation timeline given the lead time schemes and consolidators will need to build the necessary infrastructure.

2.43. The above reduces inconsistency and litigation risk.

Question 5: Are there any additional guarantees or protections that will need to be considered that have not been outlined in this consultation?

2.44. Additional protections requiring consideration include:

- Protected tax-free cash.
- Historic AVC arrangements.
- Deferred bonus structures. (included because some historic salary-sacrifice or bonus-sacrifice arrangements feed directly into pension pots and may carry scheme-specific conditions that a simple pot-value test would not capture; we would welcome confirmation from the Department if this were considered out of scope for this exercise).
- Protected Lifetime Allowance-related rights.
- Employer-specific protected benefits
- With-profits guarantees and market value reduction (MVA) protections (included because some legacy default funds carry MVA-free guarantee dates; a transfer shortly before that date could crystallise an investment penalty for the member that would not arise if the transfer were delayed).

2.45. The SPP suggests a detailed regulator-approved catalogue of protected rights. This catalogue should be developed collaboratively with industry, given that some protections (as noted in Question 2) only become known when a member draws their benefits and should include a clear process for schemes to notify the regulator of newly identified protection types as they emerge.

2.46. **Questions 6, 7 and 9 are related and therefore answered as one as follows:**

The SPP would be grateful if DWP would clarify that “the statutory transfer notice” and “pre-consolidation notice” both referred to in paragraph 63 of the consultation document are the same. We have assumed this is the case, but if not, we would question the need for two separate notices.

2.47. We agree that the notice should contain:

1. the default transfer proposal - the information required should be kept to a minimum i.e. your entire pension pot will be transferred to a consolidator scheme called [brand name].

2. any alternative options and a clear explanation of how to exercise it

3. the implication of taking no action - this is implied by ‘default,’ but we agree this should be emphasised in plain terms.

4. confirmation that they have 30 days (or whatever the deadline is) to register their opt-out or alternative proposal

5. confirmation that the next communication, if they do not respond, will come from the receiving scheme

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6. regarding information about the pot: just the pot value and, if there are any guarantees, just their nature -in the interests of keeping the communication as simple as possible, we would not recommend including a requirement to explain the trustees' decision to include members with such guarantees in the exercise. In most cases, this information will be superfluous and in other cases could be included voluntarily.

7. regarding information about the transferring scheme, we question whether anything is needed beyond its name and contact details. Providing too much information will encourage disengagement for the wrong reason (i.e. because it looks complicated). Disengagement is to be welcomed if it is because the member considers that the proposal sounds sensible.

8. regarding information about the proposed scheme: name, confirmation that it is an approved consolidator, and a link to the FCA list of consolidator schemes - we do not that that the transfer notice 'pack' should the materials for a comparison of all the consolidators. The FCA list could provide the baseline information for each consolidator (e.g. VfM rating, charges and costs comparison, investment strategy, and key features). The transfer notice can just refer to the availability of this website. For vulnerable customers, there could be a way for them to request a paper 'brochure' version. We do not think the content or format of this webpage needs too much prescription at this point and can be left for the FCA to develop based on actual feedback.

9. regarding "the terms of any contract the member would enter into," we think this might be best met by providing a link to a webpage belonging to the proposed consolidator's (i.e. one an authorised consolidator must make available) detailing the terms. Again, there could be a way for vulnerable customers to request a paper version, probably a phone number for the transferring scheme so they could pause the process until after the member has received the paper copy. There are two concerns if this instead required terms spelled out within the communication. First, that the transferring scheme having to source the terms from potentially several different consolidator schemes would be disproportionate. Second, that this would potentially overcomplicate the communication.

10. regarding routes for further information or support, the transferring scheme's contact details, and those of MaP for independent information and guidance.

2.48. The SPP believes it is probably counterproductive to expressly "*invite* the member to confirm whether they accept the default proposal or wishes to choose another option." This risks a mixed message, both that they (the member) should engage but that not doing so is nothing for them to be concerned about. The act of providing both a clear explanation of how to exercise alternative options and contact details should reassure recipients that they can get in contact if they wish. However, this is in the Primary Legislation so it will have to be incorporated to a degree.

2.49. We are not sure what is meant by the notice "covering eligibility." We are not sure what the benefit would be of explaining why the member is 'in scope,' if that is what is meant.

2.50. We are also not sure what is intended by "whether any further communications are likely to follow, for example where consolidation exercises are repeated over time." Number 5 above covers what we think would be a useful inclusion.

2.51. We think explaining why a consolidator has been chosen should be limited to one sentence i.e. because you already have funds with them. This logic is easily understood. We expect that anything beyond that (i.e. fragmentation risk, why this was selected and not others that member has funds with) bloats the communication and is just as likely to prompt stubborn refusal as acquiescence.

2.52. In the interests of consistency, we think there is benefit to an industry standard 'insert' containing any information that is not scheme or pot specific. For example, it could include an explanation of small pot consolidation, what the member's rights are (i.e. to opt-out or select an alternative), and contact details for MaPs. This would be similar to MoneyHelper's 'How to take your pension' insert or the Regulator's 'Scorpion Leaflet,' with independent branding (i.e. MoneyHelper / the Pensions Regulator) to aid trust in the exercise.

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2.53. To test and review this communication, we propose a government review after 18 months. Schemes and (if they are made a source of independent guidance as recommended) MaPS could be asked to record the most common sorts of questions they are asked about the exercise so this can be included in future communications to pre-empt those questions.

2.54. We believe these adjustments would keep the communication sufficiently simple and consistent to generate trust in the exercise and reduce opt-outs. It is easier to add disclosures (through producing guidance and recommendations) than to withdraw them (requiring, if they are hard coded in regulations, amending regs).

2.55. **Question 8: In your view, where a member already has an allocated consolidator scheme, should they be able to choose an alternative consolidator for subsequent consolidations (option 1), or should subsequent eligible deferred pots transfer by default to their existing consolidator scheme (option 2), subject to the member's right to opt out and the scheme remaining an authorised consolidator?**

2.56. The SPP agrees that there is a significant risk members will opt-out of consolidation altogether if the only choices are to remain or move to a consolidator scheme. They may be in dispute with or generally unhappy with the consolidator, possibly planning (or in the process of) manually transferring from it.

2.57. Option 1 is more complex than option 2, but no more complex than the initial exercise (where members are also able to choose alternatives). Indeed, option 2 would necessitate a different transfer notice depending on whether the member already has a consolidator (no right to choose an alternative) against their initial notice (given a choice).

2.58. One factor that should give confidence that members will not choose different consolidators is that most people's first consideration is almost always 'should I bring all my pots together?' These are also, almost by definition, disengaged members and unlikely to choose a more labour intensive option.

2.59. A better way to alleviate concerns about the scale of aggregation would be to gradually increase the scope (i.e. pot size and schemes covered). It is also hoped that the Pensions Dashboards programme will organically encourage and facilitate more consolidation.

2.60. In summary, option 1 is probably preferable.

2.61. **Question 10: Do you agree with the proposals set out in this chapter? Are there any unintended risks or consequences that may arise from these proposals?**

2.62. The SPP supports the overall objective of establishing clear and proportionate standards for schemes wishing to act as consolidators. Given that transfers may take place without an active member decision, it is essential that consolidators demonstrate appropriate governance, operational capability, financial sustainability and value for money (VfM).

2.63. However, the requirements should be considered together rather than as separate authorisation criteria. A scheme may have sufficient assets to meet scale requirements but lack the administrative capacity, systems or resources to absorb substantial transfer volumes without affecting service quality. Authorisation should therefore assess the interaction between financial sustainability, operational resilience, member servicing and VfM.

2.64. We also recognise the operational risks associated with preserving Protected Pension Ages and other member protections. As noted in our responses to Questions 2–5, incomplete historical records and inconsistent administrative processes could result in unintended loss of benefits or delays. Clear industry guidance and appropriate operational testing should be developed ahead of implementation.

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2.65. The proposed approach to scale, charging and VfM should also be monitored after implementation. Asset size alone does not guarantee good member outcomes, and changes to flat-fee restrictions could result in higher percentage-based charges or other unintended effects. The FCA and TPR should therefore monitor charges, investment outcomes, service standards and complaints, with proportionate intervention where performance deteriorates.

2.66. The SPP recommends that the government:

- Assesses operational capability, financial sustainability and VfM together, including the ability to absorb significant transfer volumes without deterioration in service.

- Ensures that industry guidance and testing for the preservation of Protected Pension Ages and other protections are available sufficiently early.

- Monitor the impact of scale and charging requirements on member outcomes, avoiding unnecessary transfers and unintended increases in costs.

- Treat VfM and service quality as ongoing requirements, supported by appropriate regulatory intervention where standards deteriorate.

2.67. These measures would support effective consolidation while protecting members from avoidable detriment and minimising duplication of existing regulatory requirements.

Question 11: Do you consider that there should be other terms of the scheme that are explicit requirements in order to act as a consolidator scheme?

2.68. The proposed requirements provide a useful foundation. Any additional requirements should be targeted at risks specific to the consolidator role and should avoid unnecessary duplication of existing regulatory requirements. For example;

2.69. *Operational capability and resilience*
Schemes should demonstrate that they can absorb significant volumes of transfers without deterioration in administration or member service.

2.70. *Data quality*
Consolidators should have the systems and processes necessary to receive, reconcile and maintain accurate member data.

2.71. *Member communications and servicing*
Members should receive clear information about the consolidation and their resulting pension arrangements.

2.72. *Governance and conflicts of interest*
Appropriate safeguards should be in place where consolidation could create different outcomes for existing and incoming members.

2.73. *Exit planning*
Schemes should have credible arrangements for the orderly transfer of members if they cease to qualify as a consolidator.

2.74. We would not favour additional requirements where equivalent protections already arise from existing FCA or TPR rules, the Consumer Duty, master trust authorisation or the VfM framework. A clear allocation of responsibilities should avoid duplication.

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2.75. **Question 12: Do you consider the existing requirements relating to financial sustainability to be sufficient as an assessment of the scheme's ability to absorb the operational and financial implications of acting as a consolidator?**

2.76. The existing financial sustainability requirements provide an important baseline, but financial sustainability should be considered alongside the specific operational and financial implications of acting as a consolidator.

2.77. The existing Master Trust authorisation framework provides a substantial foundation for trust-based schemes, while contract-based providers are already subject to FCA requirements concerning financial resources. We therefore do not consider that a wholly separate regulatory regime is necessary, indeed that would best be avoided.

2.78. However, general financial strength does not necessarily demonstrate that a scheme can absorb potentially exceptionally large volumes of small pots. The assessment should also consider expected transfer volumes, administration costs, operational capacity, systems resilience and the sustainability of servicing small pots.

2.79. It would probably make sense for the existing financial sustainability framework to be supplemented, where appropriate, by consolidator-specific evidence such as an assessment of expected inflows, operational capacity and relevant stress testing.

2.80. The objective should be to ensure that financial resilience and operational capability are assessed together without creating a duplicative regulatory regime.

Question 13: Which approach to scale do you consider most appropriate to support positive member outcomes, and why? Are there alternative approaches that should be considered? How should this be monitored and updated over time to ensure they remain appropriate as the market develops?

2.81. Scale is likely to be an important factor in delivering good member outcomes, particularly where it enables economies of scale in investment, administration, technology and governance. However, asset size should not be regarded as a proxy for VfM or member outcomes in itself.

2.82. Scale should be assessed with various indicators, including assets under management and membership; administrative and operational capability; investment capability; financial sustainability; VfM performance; and the ability to absorb further transfers without deterioration in member service.

2.83. There is a potential risk in relying solely on a high asset threshold if this materially reduces the number of potential consolidators. Conversely, allowing schemes to act while only on a transition pathway could create a risk of subsequent transfers if they fail to achieve the required scale.

2.84. The requirements should therefore be reviewed periodically, using evidence on actual member outcomes rather than simply the number of schemes meeting a particular asset threshold. Reviews should be coordinated with the wider DC scale and VfM frameworks to minimise the risk of repeated transfers.

2.85. **Question 14: Do you agree that the most appropriate and equitable approach is to review the flat fee de minimis threshold across the market as a whole, with any changes implemented ahead of the introduction of the Multiple Default Consolidator solution? If not, which of the options discussed do you consider most effective in delivering strong member outcomes, and why?**

2.86. The SPP agrees that the flat-fee de minimis should be considered across the market rather than solely in relation to consolidator schemes.

2.87. Automatic consolidation changes the context in which members experience charges, as members may have little or no involvement in selecting the receiving arrangement. A market-wide review would therefore provide greater consistency and avoid different charging protections depending on how a member entered a scheme.

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2.88. At the same time, any change should consider the wider impact on scheme charging structures. Restrictions on flat fees may result in changes to percentage-based charges or other elements of the charging structure, potentially affecting different cohorts of members in different ways.

2.89. The review should therefore be supported by appropriate impact analysis and should consider the overall charging structure rather than the flat fee in isolation.

2.90. Implementing any changes ahead of the Multiple Default Consolidator would also provide schemes with time to make the necessary system and pricing changes and would reduce the risk of the two reforms interacting in unintended ways.

Question 15: Do you think schemes should be prohibited from acting as a consolidator scheme if they do not receive a specific VfM rating, if so, what rating do you consider to be an appropriate level of value?

2.91. There is a strong case for requiring consolidators to demonstrate VfM, particularly because consolidation will frequently occur without an active member decision.

2.92. The consolidator regime should be aligned closely with the final VfM framework rather than establishing a separate definition of value. This should help ensure consistency between the two regimes, avoid duplication and unnecessary regulatory and administrative burdens.

2.93. The Government's proposal to permit schemes receiving a Light Green or Dark Green rating provides a potentially workable basis. However, the key consideration should be whether the final VfM framework provides sufficient assurance that a scheme is delivering appropriate outcomes for members.

2.94. VfM should also be treated as an ongoing requirement. A scheme's assessment may change over time, and eligibility to receive further pots should therefore be subject to continuing monitoring.

2.95. Where VfM deteriorates materially, there should be an appropriate supervisory response, potentially including remediation or restrictions on accepting new pots.

2.96. The FCA and TPR should monitor the operation of the VfM requirement following implementation to ensure that the framework remains appropriate for members entering through automatic consolidation.

Question 16: Do you agree that consolidator schemes should undertake same scheme consolidation, and that option 1 presents the best safeguards for savers? Do you agree with the proposals on exclusions from same scheme consolidation?

2.97. Same-scheme consolidation has the potential to reduce fragmentation, duplicated administration and unnecessary charges. It should therefore form an important part of the wider small pots strategy.

2.98. The proposed approach could also reduce the number of subsequent transfers required under the Multiple Default Consolidator model.

2.99. However, same-scheme consolidation should be subject to clear safeguards. In particular, consolidation should not result in the loss of protected pension ages, guarantees or other material member protections. It should also take account of material differences in investment arrangements and charging structures.

2.100. The principle should be that consolidation takes place where it does not create material detriment and where the receiving arrangement provides an appropriate level of VfM.

2.101. The exclusions should therefore be targeted at circumstances where consolidation could adversely affect member rights or protections, rather than creating broad exemptions which perpetuate unnecessary fragmentation.

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2.102. The requirements should also be capable of operating effectively across both trust-based and contract-based schemes.

Question 17: Do any of the options explored in this chapter present potential challenges specifically for contract-based schemes if the FCA were to introduce identical requirements in its rules?

2.103. There are a number of issues which warrant particular consideration for contract-based schemes, although the SPP very much supports the objective of achieving equivalent outcomes across trust-based and contract-based arrangements.

2.104. The legal basis for consolidation needs to be sufficiently clear. Contract-based arrangements are founded on individual contractual relationships, and requirements for consolidation without explicit consent should therefore provide appropriate legal certainty.

2.105. Providers may have different contractual arrangements for different employers, including different charging structures, investment options and member benefits. Same-scheme consolidation should take account of these differences rather than assuming that a single approach will always produce the best outcome.

2.106. The interaction with the FCA's existing regulatory framework will need careful consideration. Requirements concerning consolidation, member communications, Consumer Duty, transfers and VfM should operate coherently and avoid unnecessary duplication.

2.107. The FCA should monitor the impact of any new requirements following implementation. This is particularly important given the different legal and operational structures of contract-based schemes. We therefore support consistency in the outcomes expected from trust-based and contract-based consolidators, while recognising that identical outcomes may not always require identical rules. As always, the regulatory framework should remain proportionate and workable while providing equivalent protection for members.

Question 18: To what extent do you agree that existing regulatory powers and supervisory frameworks, together with the proposed supervisory and intervention powers, provide a sufficient basis for the effective ongoing oversight of consolidator schemes? Please provide reasons for your answer, including whether there are any additional supervisory or intervention powers that should be considered, or any proposed interventions that you do not support

2.108. The SPP believes that the existing powers and supervisory frameworks should be the basis of oversight of consolidator schemes. The Value for Money framework should assist with this. Care will need to be taken if contributions stop while issues are resolved, as it could further hinder the scheme improving. It is also important that the role of a consolidator scheme remains attractive to the market. Relying on regulators to follow frameworks and utilise the approach they believe is suitable under their powers seems sensible.

Question 19: To what extent do you agree with the proposed approach to the treatment of members' pots following the loss of consolidator status? Please provide reasons for your answer, including whether you consider a single approach, or an alternative approach, would better support member outcomes.

2.109. Care needs to be taken with giving schemes discretion as some outcomes could be adverse to members e.g. splitting up pots seems to be against the whole principal of this, but schemes might favour this. Robust oversight of the stated requirement of member best interest is critical.

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Question 20: To what extent do you agree that decisions on the removal of consolidator status should remain subject to regulatory judgement on a case-by-case basis? Are there any breaches that you consider should automatically result in the removal of consolidator status?

2.110. Clearly if there were issues such as an insurer losing FCA regulated status that would require action, but as the consultation notes, there are full processes for that anyway. The consolidator status is an extension of an existing regulatory framework. It seems sensible to follow this.

Question 21: To what extent do you agree with the proposed approach for schemes wishing to voluntarily exit the consolidator market? Please provide reasons for your answer, including whether you consider an alternative approach, would better support member outcomes.

2.111. The master trust framework for example has clear provisions for schemes exiting the market, and it makes sense to follow these frameworks. The proposed approach seems sensible. It is vital schemes only exit if they can evidence members will be moved to an appropriate arrangement.

2.112. **Question 22: How do you consider this process should be delivered for smaller schemes that are unlikely to transfer significant volumes of small pots and for which investment in dedicated digital infrastructure may not represent good value for their wider membership?**

2.113. We consider that smaller schemes should be able to meet the requirements through their existing provider or administrator, rather than being expected to invest in dedicated infrastructure themselves. For many providers and third-party administrators, small pot consolidation will be delivered across their wider client portfolios, enabling the costs of developing standardised data, matching, messaging, security and transfer capabilities to be spread across multiple schemes and creating economies of scale.

2.114. Proportionality should therefore focus on how smaller schemes meet the requirements, rather than applying different standards. Smaller schemes should be able to meet common data, matching, messaging and security requirements through shared provider or administrator solutions, with appropriate scheme oversight. This should enable schemes with relatively few eligible pots to participate without incurring disproportionate scheme-specific development costs.

Question 23: To what extent do you agree with the government's proposed approach of a federated model supported by a central oversight body? What factors should the government consider when determining where the central oversight function should sit, including whether it should be delivered by a public body, an existing organisation, or an industry-led body operating within a statutory framework?

2.115. We agree with the proposed federated model supported by a central oversight body. A central function is important to ensure a consistent framework across the market, while the federated model should allow schemes and providers to make use of existing systems and capabilities.

2.116. We do not have a strong preference at this stage as to where the central oversight function should sit. More important is that the body has the appropriate capability, governance and authority to perform the role effectively.

2.117. In determining where the function should sit, we consider the following particularly important:

- **Independence and conflicts of interest**: governance arrangements should provide appropriate independence and safeguards against conflicts of interest. This will be particularly important in relation to the carousel, given that the rules will determine the allocation of pots between commercial consolidators.
- **Accountability and transparency**: there should be clear accountability for the operation of the framework and for decisions to introduce or change standards and allocation rules.

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- **Industry expertise**: the arrangements should provide for meaningful industry involvement in developing and maintaining technical and operational standards, including input from schemes, providers and administrators of different sizes.
- **Ability to evolve**: standards will need to develop as the system beds down and technology and industry practices change. The governance arrangements should allow changes to be made efficiently, with appropriate consultation and oversight.
- **Alignment with existing initiatives**: existing standards and infrastructure, particularly those developed for pensions dashboards, should be used wherever appropriate to avoid unnecessary duplication and cost.

2.118. Where an existing organisation can meet these requirements, we would favour making use of existing capability rather than creating a new body and associated infrastructure unnecessarily. However, the choice of organisation should ultimately be driven by its ability to provide effective and impartial oversight of the framework, rather than by whether it is a public or industry body.

2.119. **Question 24: Do you agree that detailed technical and operational standards should be capable of being updated outside legislation, subject to appropriate governance and consultation?**

2.120. We agree with the proposed approach. In practice, it will be important that changes to technical and operational standards are subject to appropriate industry consultation and supported by clear change control, versioning and implementation arrangements. Schemes, providers and administrators should be given sufficient notice of material changes and a reasonable implementation period, particularly where systems development or changes to data and administration processes are required.

2.121. We also consider that the standards-setting function should explicitly cover security and authentication requirements, given the sensitive member data being exchanged through the process. It should also cover exception and error handling, including a consistent approach where a match cannot be confirmed or data is insufficient or conflicting, and importantly the process to be followed where a pot has been transferred in error. This should also include circumstances where a member cannot be contacted, for example where no valid contact details are held or the pre-consolidation notice is returned as ‘gone away’. The standards should be clear on what reasonable steps, including tracing, should be taken and whether consolidation can proceed where those steps have been exhausted. There should be clear responsibilities and processes for identifying and correcting erroneous transfers, including how the member should be restored to the position they would otherwise have been in.

2.122. **Question 25: To what extent do you agree that legislation should require pension schemes to comply with common data standards when participating in the Multiple Default Consolidator solution?**

2.123. The SPP agrees that participation in the Multiple Default Consolidator solution should be conditional on compliance with common data standards.

2.124. Consistent standards will be essential to support accurate matching, reduce the risk of inappropriate transfers and ensure consistent outcomes across participating schemes. The legislative framework should establish a clear obligation to comply with prescribed standards, together with appropriate requirements for data quality, security, auditability and governance.

2.125. However, the detailed specification of data fields, formats and technical requirements should not be set out in primary legislation. These should be maintained through industry standards or statutory guidance overseen by the appropriate central body, allowing the framework to evolve as operational experience develops.

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Question 26: To what extent do you agree that pension schemes should be required to use approved messaging standards when participating in the small pots framework? In particular we are keen to understand:

- **what role should legislation play in establishing messaging requirements, and what matters should be left to standards or governance arrangements?**

2.126. We agree that schemes should be required to use approved messaging standards. A consistent and secure approach to exchanging information should help mitigate the operational, data and security risks associated with a process that will ultimately result in members' pension pots being transferred automatically. This is particularly relevant for trust-based schemes, where effective risk management and internal controls are already fundamental elements of scheme governance under TPR's General Code and ESOG requirements.

2.127. We agree with the proposed approach of setting the requirement to use approved messaging standards in legislation, while leaving the detailed technical requirements to the standards and governance framework. We also support not prescribing a specific commercial provider or messaging network. This provides greater flexibility to use existing infrastructure where it meets the required standards, avoids unnecessarily tying the market to a single solution and allows arrangements to evolve as technology and industry capability develop.

- **how should the framework ensure that approved messaging arrangements are accessible to schemes and providers across the whole market?**

2.128. The SPP considers that approved messaging arrangements should be accessible to schemes and providers of all sizes across both the trust-based and contract-based markets. Requirements should promote interoperability and security without creating disproportionate costs or barriers to participation, particularly for smaller schemes and providers.

2.129. The framework should use technology-neutral, open standards and should not require participants to use a single commercial provider or network. Schemes and providers should be able to use existing infrastructure where it meets the required standards, supported by clear technical specifications and proportionate onboarding and testing arrangements.

2.130. The central digital interface should provide consistent access and authentication arrangements, with transparent and proportionate charging. Industry representatives, including smaller schemes, administrators and providers, should be involved in developing and reviewing standards to ensure they remain practical and accessible as the market evolves.

2.131. This approach would support secure and consistent messaging across the market while avoiding unnecessary costs, restrictions on competition or barriers to participation.

Question 27: To what extent do you agree that pension schemes should be required to apply a common data matching framework when participating in the small pots consolidation process?

2.132. The SPP agrees that participating schemes should be required to apply a common data matching framework.

2.133. A common framework will provide consistency and reduce the risk of inappropriate transfers. It should establish clear requirements for the data to be used, acceptable tolerances, treatment of incomplete or conflicting information, and the circumstances in which a match may be confirmed, rejected or referred for further review.

2.134. We agree with the suggestion of a tiered approach distinguishing between confirmed matches, possible matches and no matches. Automatic transfer should only occur where the prescribed matching threshold has been satisfied. Where uncertainty remains, the pot should not be transferred solely on the basis of an automated assessment.

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2.135. The detailed matching methodology should be maintained through technical standards rather than legislation, enabling it to be refined in light of experience and evidence. The framework should also provide appropriate audit trails and mechanisms for correcting inaccurate member data.

Question 28: To what extent do you agree that a carousel allocation process should be used where a member does not already have a pot with a consolidator?

2.136. In principle we agree that a centrally governed carousel allocation process is an appropriate mechanism where a member does not already have a pot with a consolidator. However, as you note, the design of this process requires further development.

2.137. The process should operate according to transparent, objective and consistently applied rules. These should address the allocation of new business, consolidator capacity, temporary restrictions on accepting transfers, the entry of new consolidators and the orderly exit of existing consolidators.

2.138. The methodology should be sufficiently transparent to demonstrate that consolidators are treated consistently and should include appropriate audit and oversight arrangements.

2.139. The detailed allocation methodology should be capable of being amended through appropriate governance arrangements without requiring legislative change.

Question 29: To what extent do you agree that a central digital interface should maintain a list of consolidator schemes, including verified contact details and relevant information?

2.140. We agree that the central digital interface should maintain an authoritative register of participating consolidators.

2.141. The register should contain sufficient information to enable schemes to identify authorised consolidators and communicate with them securely and efficiently. This should include relevant identifiers, regulatory status, verified contact details, technical information and participation status.

2.142. Clear responsibilities should apply for maintaining the accuracy of the information, with consolidators required to notify the central body promptly of material changes.

2.143. The register should also provide appropriate audit and version-control functionality, enabling schemes to demonstrate which information they relied upon when initiating a transaction.

2.144. **Question 30: To what extent do you agree that a central digital interface should issue, or enable the issuing of, security credentials, certificates, keys or tokens to support secure communications between participating schemes and consolidators?**

2.145. We agree in principle that the central digital interface should provide a common trust and authentication framework for participating schemes and consolidators.

2.146. A centrally governed approach should reduce the need for multiple bilateral arrangements and provide greater consistency in the authentication and security of communications.

2.147. The framework should include appropriate identity verification, secure credential issuance, defined validity periods, credential renewal and rotation, prompt revocation, audit logging and incident-management arrangements. It should also provide appropriate business continuity and resilience arrangements so that the central service does not become an avoidable single point of failure.

2.148. The legislation should establish the requirement to use an approved security framework but should not prescribe particular technologies or security providers. Detailed technical requirements should instead be maintained through appropriate standards and governance arrangements.

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2.149. **Question 31: To what extent do you agree that the proposed requirements provides a proportionate basis for pot matching and contact? Please provide reasons for your answer. Are there any additional data fields that should be included in the requirements to support more effective pot matching, and if so, why?**

2.150. **Question 32: To what extent do you agree with the proposed approach to improving member data quality through enhanced employer data requirements? Please provide reasons for your answer, including whether the proposed 12-month interval and information requirements are proportionate, whether any additional information should be included or any proposed information is unnecessary, and how any administrative burden on employers could be minimised.**

2.151. It makes sense to the answer the above two questions together.

2.152. The SPP broadly agrees that the proposed requirements provide a proportionate basis for supporting effective pot matching and contact.

2.153. *Data provision by implementation date*

2.154. We agree with a period of 12 months for employers to provide administrators with updated data relating to name and address, and new data relating to personal email address.

2.155. We see little value in requiring employers to recapture date of birth. This is already a required data item on enrolment and, unlike name or contact details, will not change. Schemes and providers should therefore be expected to identify gaps or inaccuracies within the data they already hold and request corrections from employers where necessary, rather than requiring wholesale recapture and resubmission of this information.

2.156. We consider personal email address to be an essential data item for the reasons given in the consultation, and also because pension communications are becoming increasingly digital. We therefore support this data item being sourced for all members, rather than limiting collection to those with pots under £1,000 at implementation. We acknowledge that employers will need to make a one-off investment to collate this information for their existing workforce; however, the 12-month period also gives them the opportunity to embed collection of personal email addresses into standard onboarding processes for new recruits, making this more sustainable going forwards.

2.157. *Periodic updates of key data items*

2.158. We agree with employers providing updates of key data items to providers/administrators at least once every 12 months, at a point that suits the individual employer. An annual cycle should be sufficient to improve the accuracy of member data while remaining proportionate for employers of different sizes.

2.159. For name and address, we would expect employers to provide details of changes they have been notified of by employees, rather than resubmitting this data for the entire workforce each year. Many employers are likely to have processes already in place for passing such changes to their pension provider/administrator, and building on these should help minimise the additional administrative burden.

2.160. A slightly different approach may be appropriate for personal email addresses. Where an employee has not previously provided one, there could be value in the employer being required to request it again periodically. However, we would question whether this needs to continue indefinitely on an annual basis, particularly as some employees may be more comfortable providing a personal email address directly to their pension provider than to their employer. The framework should therefore allow providers/administrators to obtain and maintain personal contact details directly from members, rather than relying solely on repeated requests through employers.

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2.161. *Additional data items*

2.162. On additional data fields, our view is that it's important to maintain consistency with the data items and matching approach being developed for pensions dashboards. Significant work has already been undertaken across the industry to define and test a core set of fields for dashboards matching. Introducing a different or wider data set for small-pots consolidation would add complexity and cost for employers and providers, and could create confusion where two similar but not identical standards coexist.

2.163. **Question 33: To what extent do you agree with the proposed approach requiring employers to provide information where an individual is temporarily absent from work but intends to return and resume pension contributions? Please provide reasons for your answer, including whether you agree that such information should be used to help schemes avoid incorrectly treating pots as dormant.**

2.164. The SPP agrees that information should be provided to help schemes distinguish between an individual who has left employment and one who remains employed but is temporarily not contributing, so that the latter is not incorrectly treated as having a dormant pot.

2.165. We would expect this to be achieved through a clear member status, recorded and maintained by the administrator. In particular, there should be a status which identifies that the individual remains employed but contributions have temporarily ceased, distinct from a member who has left employment and become deferred. Employers should be required to notify the provider/administrator when a member moves into or out of this status, using existing data feeds wherever possible.

2.166. We think this would be preferable to relying on an employer confirming that an individual "intends to return and resume pension contributions". In some circumstances an employer may know that an individual remains employed but may not know with certainty when, or whether, contributions will resume. The relevant factor for these purposes should therefore be the member's current employment/contribution status, rather than an assessment of their future intentions.

2.167. Where a member is recorded as remaining employed but temporarily not contributing, we agree that this information should be used to prevent their pot being incorrectly treated as dormant.

3. About The Society of Pension Professionals

3.1. The SPP is the representative body for a wide range of providers of advice and services to pension schemes, trustees and employers. Our work harnesses the expertise of our membership, striving for a positive impact on pension scheme members, the pensions industry and its stakeholders.

3.2. The breadth of our members is a unique strength for the SPP. Our membership of 90 corporate organisations employs over 20,000 pension professionals including actuaries, lawyers, professional trustees, DC consultants, investment managers, providers, administrators, covenant assessors, and other pension specialists.

4. Further information

4.1. For more information about this consultation response please contact SPP Director of Policy & PR at: phil.hall@the-spp.co.uk or telephone the SPP on 0207 353 1688.

4.2. To find out more about the SPP please visit the SPP web site: https://the-spp.co.uk/

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