

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee
House of Commons
London
SW1A 0AA

20 August 2020

Dear Stephen,

Small pension pots

I refer to your letter of 31 July 2020, in which you ask for ideas to address the issue with the proliferation of small pension pots. I have attached to this letter Smart Pension's response to the DWP call for evidence on cost and charges that contains our thoughts on this matter, including ideas to help deal with the small pots issue being created by auto enrolment. I have set out below a summary of what we have said in our response to the DWP on the specific issue of dealing with small pots.

Summary

Small pots are bad news for the pensions industry, but, more importantly, they are bad news for the saver. Small, fragmented pots, get lost and do not provide a solid platform for engagement.

While pensions dashboards will help people keep connected with their pots, and perhaps proactively consolidate these in some cases, further intervention is needed to address the issue and stop the problem growing. We would urge the DWP to consider implementing solutions to the small pot problem as a matter of priority.

We have looked at various options to address the small pots issue and are working with other providers (and the PLSA) to explore workable solutions that may or may not require government intervention. While pensions dashboards will help, we don't think they will 'move the dial' sufficiently to address the problem. We think the following options all have merit and deserve serious consideration:

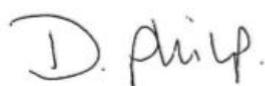
- **Member exchange:** This would allow schemes/providers to consolidate small pots of deferred members to a scheme that the individual is actively saving in, and would involve a 'coordination hub' to do the matching and help manage the process, including assessing whether a transfer is in a member's interests. It would be up to the ceding scheme what members they included in the system and trustees could use the bulk

transfer without consent regulations to facilitate the transfer, and members could always opt out if they wanted to. This could provide a good route for dealing with the issue of proactively consolidating small pots, although given uncertainty concerning volumes, we are concerned that it will take a long time to have a material impact. We think this option coupled with limited legislative support (see below) could make a significant dent in the problem.

- **Member exchange (with limited legislative support):** this option is as above, but with the government relaxing conditions within the bulk transfer without consent regulations to remove or reduce the duties of trustees to consider whether a transfer is in a members best interests for very small pots (for example, below c£100). The added advantage of this option is that it tackles head on the consolidation of micro and very small pots, where the advantages of consolidation far outweigh individual financial considerations that could amount to a matter of pence. Introducing such an easement for very small pots will really kick start the member exchange process and, in our view, make a significant difference in tackling small pots.
- **Micro pot refunds:** one really common reason for the creation of small deferred pots is people wanting to opt out just outside their opt out window. For example, we have over 35,000 members who have ceased making contributions within the month after the opt out window ending. Many of these would have just missed the opt out window. This not only creates a small pot, it is a poor customer experience as providers are not in a position to refund the contributions. A simple easement that would help prevent small pots being created in the first place might be to allow a refund for very small (or micro) pots. Alternatively the Government could extend the opt out window from a month, to say, two or three months to help deal with this issue. Although this wouldn't deal with current small deferred pots, it helps prevent the issue arising again in the future by stemming the flow of small pots, so is well worth looking at alongside the member exchange option outlined above.

I would, of course, be happy to provide further information to the Committee or to help the Committee out in any way I can to assist with its work in this area.

Yours sincerely,



Darren Philp
Director of Policy