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HOLDING SLIDE

Policy options for tackling the growing number of deferred members with small pots

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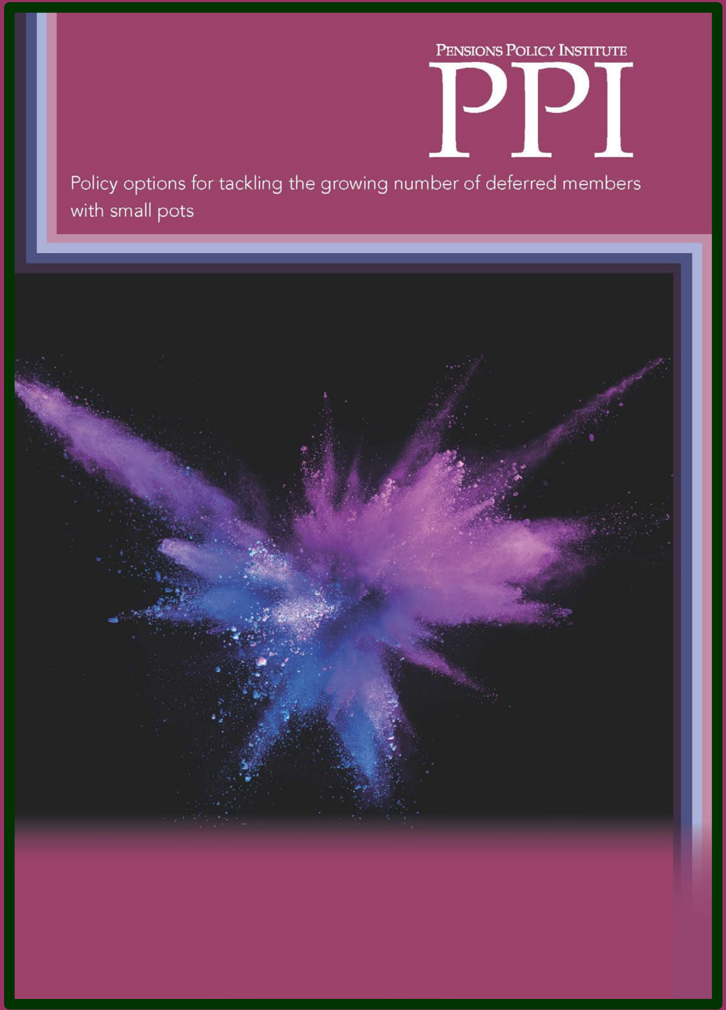

WELCOME

Policy options for tackling the growing number of deferred members with small pots

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Welcome from the Chair

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Maddi Forrester,

MFS Investment Management & PPI Council Member

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Please note this event will be recorded, this is for internal PPI use only

Key findings

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Dr. Mark Baker,

Senior Policy Researcher, Pensions Policy Institute

Twitter: #PPILaunch

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Introduction: The problem of small deferred pots.

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Automatic enrolment has seen young people, casual, flexible and part-time workers joining pension schemes.

This has led to a rapid growth in the number of small, deferred pension pots.

These pots are likely to prove unsustainable for savers and providers.

Small pots can be accrued quickly

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Length of time contributing at 8% of band earnings at NLW to achieve different small pot sizes (PPI modelling)

Pot size	Length of time contributing	
	Full time	Part time
£100	Two months	Four months
£500	Seven months	18 months
£1,000	14 months	33 months

The number of small deferred pots will continue to grow

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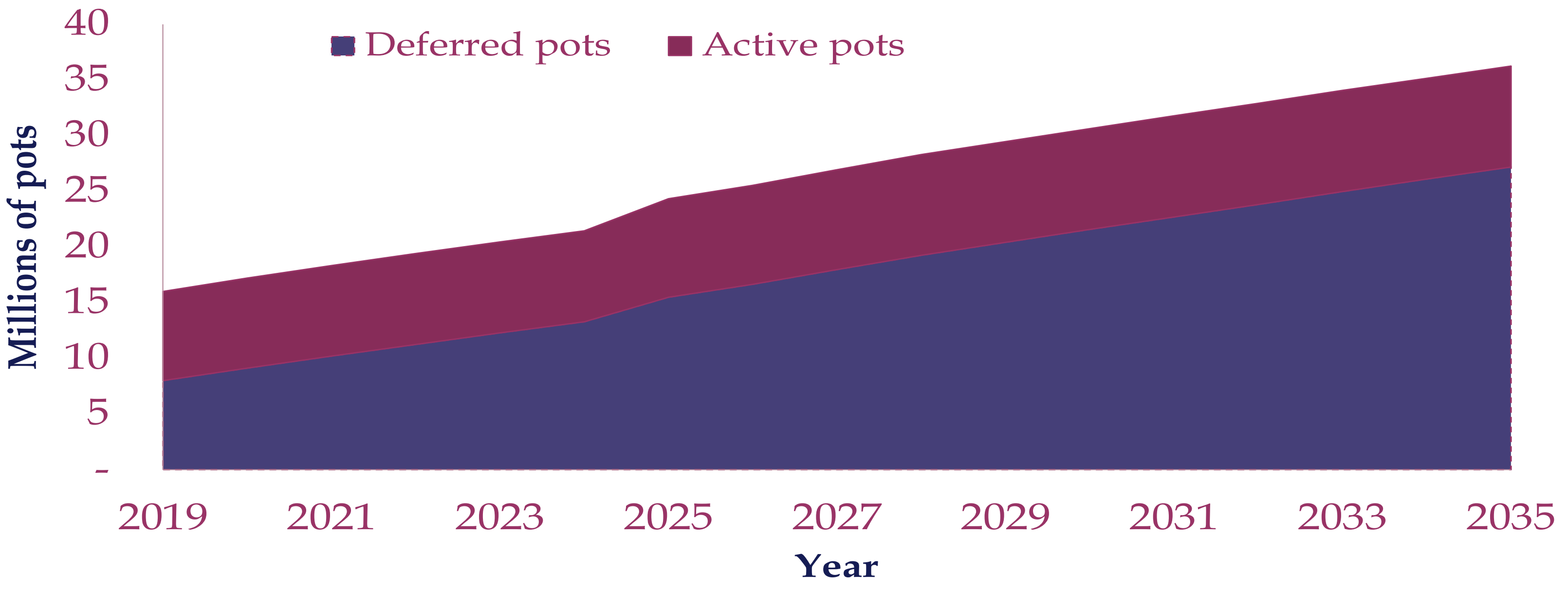
Without policy change the number of deferred pots could grow from 8m to 27m by 2035

Projected number of pots among master trust schemes by year, by deferred and active pots, without policy change



Small pots provide problems for savers and providers alike

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Savers

Could see their pension pots eroded to zero

Could see their pension pots reduced significantly in value

Could lose track of their pension pots and lose them

Providers

Could find that managing large numbers of small deferred pots is unsustainable

Could face being wound up if they fail to meet their responsibilities

A strategic approach to policy is needed.

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Dashboards: platforms that can allow members to view all pots with different providers in one place and could facilitate more consolidation

Same provider consolidation: returning members are re-enrolled into their deferred pot

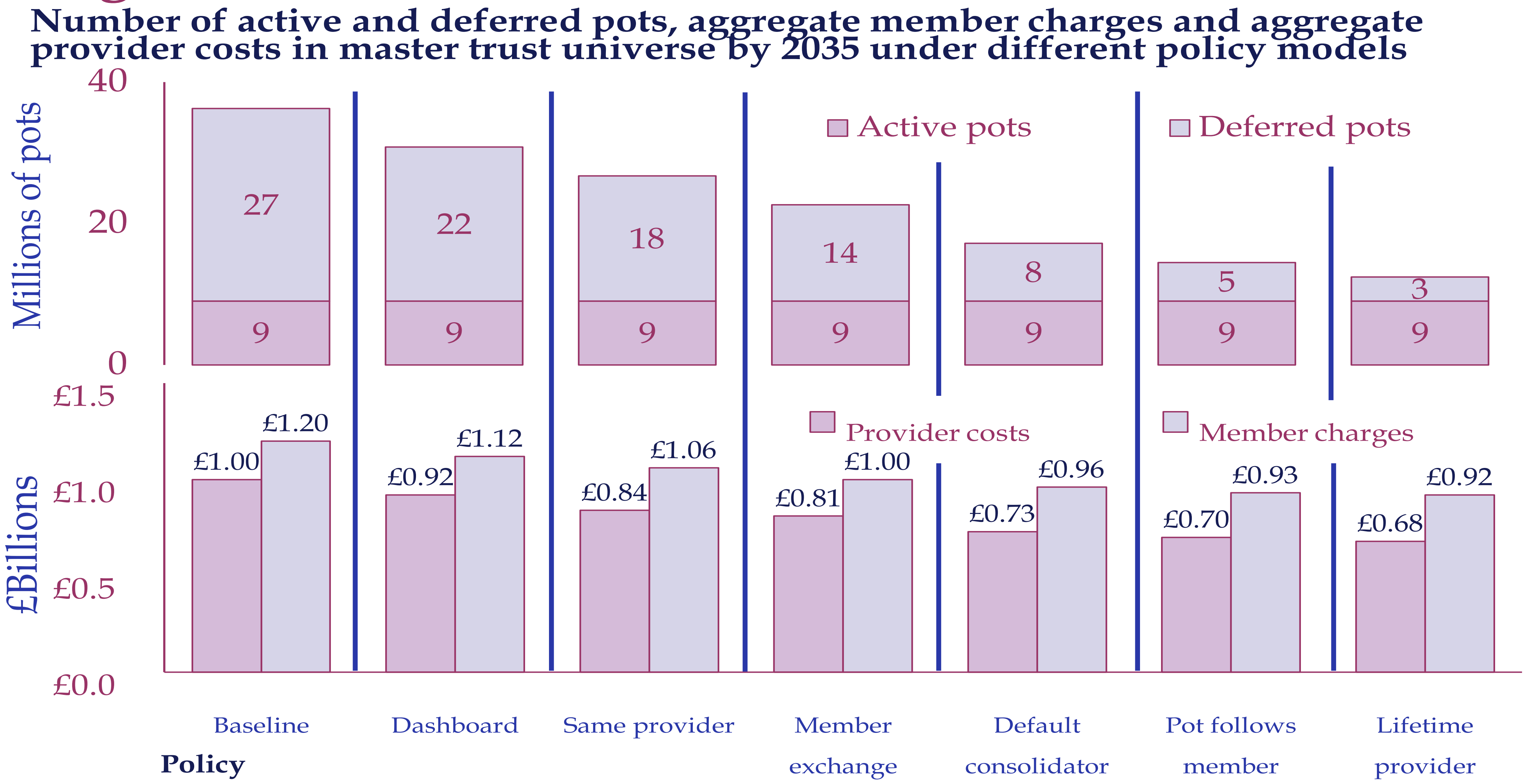
Pot follows member: pots move with members to new employer's schemes

Member exchange: a form of pot follows member, the reassignment between schemes of all existing pots into the current active scheme

Lifetime provider: members remain with the same provider throughout their working life

Default consolidator: pots deferred for a year transfer to a consolidator provider, with members being given an opportunity to opt-out

Consolidator models reduce the number of deferred member pots to varying degrees



Every approach will involve trade-offs (1)

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Policy	Trade-offs: Potential positives	Trade-offs: Potential negatives
Dashboards	• Encourages engagement	• Potential for lower levels of consolidation
Same provider consolidation	• Simplicity • Reduces administrative burden on providers and employers	• Less comprehensive coverage • Potential for "cherry picking"
Pot follows member	• More comprehensive coverage • Reduces administrative burden on employers	• Increased pot erosion resulting from transfers to schemes with higher fees • Increased administrative burden for providers • Potential for "cherry picking"
Member exchange	• A simpler version of pot follows member	• Less comprehensive coverage than pot follows member • Delay in transfers leading to pot erosion • Potential for "cherry picking"

Every approach will involve trade-offs (2)

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Lifetime provider	• Policy simplicity • Ease of administration • Most comprehensive coverage	• Unfair competitive advantage • Significant systemic change • Increased administrative burden for employers • Potential for "cherry picking" • Delay, leading to small pot generation
Default consolidator	• More comprehensive coverage • Provides for those who change jobs frequently or move in and out of work • Low administrative burden on employers	• Unfair competitive advantage • Delay in transfers leading to pot erosion • Potential for "cherry picking"

Different policy options will require different approaches to reform

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Dashboards

Will complement other policies

Regulation on Charging

Could support pot follows member

A carousel approach

to scheme allocation could help reduce competition issues with the default consolidator and lifetime provider models

The lifetime provider model

Would require changes to the regulatory landscape

Limiting policies to certain schemes

could prevent members from being transferred out of schemes which offer special benefits

Policymakers

will need to consider how to address the danger of encouraging "cherry picking" of members

There is no easy solution

Trade-offs between the different policy approaches are inevitable

- Cherry-picking
- Avoiding competitive advantages
- Ensuring member outcomes

However, people's pensions are being lost and eroded daily

- Co-operation
- Consensus
- Compromise

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The Rt Hon Stephen Timms MP

Chair of the House of Commons Work and Pensions Select Committee

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A response from our sponsors

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Adrian Boulding,

Director of Policy,
NOW: Pensions
PPI Governor

Growing number of small pots

Now is the time to tackle this issue.

Resolving it will be good for members and good for providers

Leave it too long and it could be too late !

Adrian Boulding

Director of Policy

NOW: Pensions

23rd July 2020

Auto-enrolment is doing what it set out to do

- **More people saving, many for the first time, in low cost, good quality VFM schemes**
- **10m more people saving in workplace schemes**
  - 700k people who opted out have now been automatically re-enrolled
- **AE is reaching the un- and under pensioned. People who didn't have access to pension saving with an employer contribution now do:**
  - 4m first time savers
  - 3m work in SMEs with fewer than 50 employees
  - 5m earn under £20,000 a year
- **Opt-outs are low at 9%**

The people delivering it are the new providers

- **Master trusts are covering 950,000 of the 1 million new employers with AE duties**
- **The five master trusts newly established for AE account for almost 9 million active members**
- **We asked PPI to update projected numbers of small pots**
  - Today 8 million deferred members in master trusts, by 2035 that will have grown to 27 million
- **Are we an industry that provides pensions or an industry that shepherds small pots?**

Sources : PPI DC Future Book 2019 edition , DWP Automatic Enrolment Evaluation Report 2019, Corporate Adviser Report June 2019, and NOW: Pensions estimate for the number of first-time savers

Current system encourages the “wrong behaviour”

- Inertia has overcome the traditional difficulties of getting nearly all workers to save

- But that same inertia leads to pensions being ignored at job changes
  - Old pension pot simply left behind at old job
  - A fresh pension started at the new job
- Data is now emerging as to how members behave at retirement :
  - From a large UK pension provider
  - Average DC pot size at retirement is £18,000
    - At that level, overwhelmingly taken as cash
    - But pots of £30,000 and above – majority take annuity / drawdown

I want members to have a better standard of living throughout retirement

Typical career now has 11 jobs

Job Duration	Part / Full Time	Pot Size	Pot including growth
1 year	P/T	550	1,451
2 years	P/T	1,100	2,789
1 year	F/T	1,100	2,735
2 years	F/T	2,200	5,258
4 years	F/T	4,400	9,715
1 year	P/T	550	1,191
3 years	P/T	1,650	3,365
2 years	F/T	2,200	4,313
25 years	F/T	27,500	41,680
1 year	F/T	1,100	1,288
8 years	F/T	8,800	9,525

11 job figure taken from Making Auto-Enrolment Work Review

Salary of £20,000 pa

Part-time = 20 hours per week

Real investment growth 2%pa after charges

Annuity rate 5%pa

All figures in 2020 pounds

- **Only pots over £30,000 are used to provide retirement income**
- **Without consolidation - £41,680 at retirement pot size, pension £40 per week**
- **With pot consolidation - £83,310 at retirement pot size, pension £80 per week**

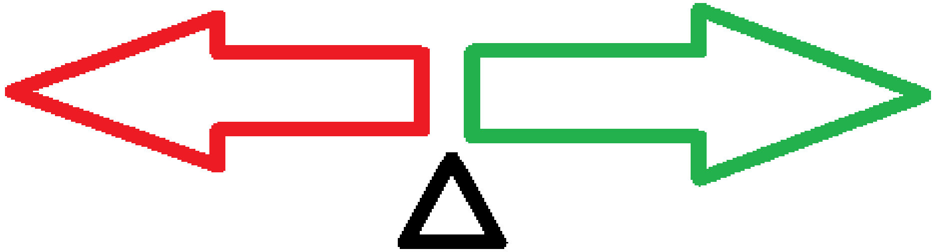
Master Trust Market is Polarised

Serving large employers

Offering an alternative to single employer trusts

Large assets under management

Charges are based on AUM



New AE master trusts

Serving small employers

Minimum contributions

Low assets under management

Dependent upon combination charges

- ➢ **We need money for Pension Dashboards, New Annual Benefit Statements, Low Carbon Investments**
  - ➢ Which are Government initiatives
- ➢ **PPI’s four consolidation options generate cost savings by 2035 of between £190m pa and £320m pa**

The Employer Perspective

- NOW: Pensions master trust comprises 30,000 employers
  - Average 30 active members each
  - Around 6,000 micro-employers with four or less staff
  - 92% of members are receiving the bare statutory minimum contributions
- Most of our employers do pensions because the law makes them do pensions
- What do we know about employer attitudes to ex-employees under auto-enrolment?
  - Steve Webb needed legislation to outlaw Active Member Discounts
  - Steve Webb banned short service refunds – which saw employer contributions stripped from members
  - We see little evidence of employers remaining paternalistic to ex-employees under AE

Employers' primary concern is that all pension related costs cease when employment ceases
And that's a business imperative in competitive high turnover segments

Did the PPI research find a silver bullet ?

- Several policy options for tackling small pots examined
  - All show some success in tackling this growing problem
  - No stand-out winner
- Other learnings
  - To be effective they need to use inertia
    - We note that Oz Lifetime Provider has only 30% take-up
  - Solution must be low cost or medicine will be worse than the affliction
  - Solution needs to work at scale
    - We will be re-uniting millions of pension pots with their owners every year
  - Solution needs to be demonstrably good for members

Builder Reg's Maxim – *ONLY MOVE STUFF ONCE*

Roadmap going forward

- Interplay between Charge Cap Review and Small Pots Problem
  - Should Government use Charge Cap Review to stop small pots being charged out?
  - Or will giving tiny pots a “free ride” actually make them un-transferable?
- We must stem the growth of small deferred pots and find a way to re-unite members with their money
  - We call for a Small Pots Taskforce, a concerted effort by Industry, Government, Regulators and Consumer Groups, with strong representation from the core AE master trusts.
  - Need time to find the right answer.
- Implementation of the 2017 AE Review to continue AE roll out to more people and savings based on all salary to accelerate the build up of assets under management towards Break Even Point
- Resolution of the net pay anomaly
- Better protection for members with larger pots who are becoming the target of high charging predatory schemes

Small pots are not a problem – when consolidated they represent an opportunity

The remainder of the event is held under The Chatham House Rule

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The Chatham House Rule

When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but <u>neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed</u>.

Panel Discussion

Chaired by Maddi Forrester

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Fiona Frobisher

Head of Policy, The Pensions Regulator

Rob O'Carroll

Automatic Enrolment & NEST policy DWP

Alastair Reed

Principal Policy Adviser, Money Which?

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Questions and Answers

Please observe the Chatham House Rule

If you experience issues asking your question, please text your question to Danielle Baker stating your name and full question.

07714 250 910

Closing Remarks

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