

Addressing the challenge of deferred small pots: a call for evidence

Isio Ltd response

About Isio

Isio is a leading independent UK provider of actuarial consulting, pensions administration, investment advisory, employee benefits and wealth management services. We support a wide range of employers, trustees and individuals, covering both DB and DC arrangements, and both public and private sectors.

We welcome the opportunity to comment on these proposals. We have contributed to the detailed submissions of our representative bodies but would here like to restrict ourselves largely to some general observations.

We are strongly supportive of the pot-follows-member (PFM) approach. It is through their employers that the vast majority of members will most actively engage with pension provision and where they will experience the most proactive communication and support – through the auto-enrolment process and beyond. This need not operate in a way which creates significant new burdens for employers. There is a further advantage to this approach, in that it is the individual's current employer who will be most highly motivated to ensure that the pension pot is well managed (relative to an employer with whom the individual no longer has any connection). Current, active schemes will also, on average, be more up to date with current market practice than legacy schemes.

Further to these points, there is an additional advantage, in that PFM will generate fewer small pots in the first place (by virtue of the fact that a 'new employer' pot may be boosted above the small pots threshold by receipt of a PFM pot).

Within the PFM approach, we believe a push-based system will be more effective in clearing the initial, large backlog of small pots – though accept that there may be factors that militate for a 'pull' approach.

This might still leave a more limited role for consolidators, for example in respect of those pots where it does not prove possible to track the individual's subsequent employers (e.g. where there are frequent job moves).

It would be highly desirable to have some form of tracking of small pots consolidation via pensions dashboards, once up and running – so that members can see which pots have been transferred and to where. This will limit the scope for confusion should members go looking for pots that are no longer there. The dashboards ecosystem might also be needed in order to solve the awkward problem of how schemes holding small pots are going to identify individuals' new schemes.

Our views on a few of the specific questions are noted below:

1. Do you agree that these are the appropriate key criteria to inform development of a market-wide small pots consolidation solution? Are there additional/different criteria to apply?

Any solution will inevitably have to trade off advantages under one criterion against disadvantages under another. However, we agree that these are essentially the right areas to focus on.

4. Do you consider one of the values below to be the most appropriate starting limit for eligibility for automatic consolidation, and why – or is there an alternative value?

- a) £1,000
- b) £2,500
- c) £5,000
- d) £10,000

The initial limit should be set low: £1,000 or conceivably £500, in order to try and clear much of the existing backlog of small pots. In the longer term, we note that the Pensions Policy Institute has suggested £4,000 as being the break-even size at which pots can become profitable for providers. That would seem to be a reasonable benchmark going forward. (Setting the limit too low and then raising it also seems a less harmful approach than finding that it has initially been set too high.)

10. Do you think there should be a minimum pot size limit for pots to be eligible for automatic consolidation? If so, what do you think this limit should be, and what should happen to pots below that limit?

A threshold of £100 sounds reasonable, with the scheme being able to refund such amounts, provided they relate to membership periods of less than 3 months. Without that latter proviso, there is a risk of undermining the auto-enrolment process in the eyes of workers.