

## DC hot topic

January 2021

### Solutions for small pots



The Government is “determined” to address the growth in the number of deferred small pots (of less than £1,000) and the impact this has on the consumer.

In December 2020, the Small Pots Working Group Report (“the Report”) set out its recommendations. These call upon the pensions industry, in particular master trusts, to play their part.



#### What’s the issue?

According to estimates, most individuals now hold in excess of ten jobs in their lifetime. This trend, coupled with the success of automatic enrolment (“AE”), has resulted in the proliferation of small, deferred pension pots. The majority of these are held in master trusts. [Research from the PPI](#) showed that there are currently 8 million deferred pension pots and 8 million active pots in master trust schemes, which could increase to around 27 million deferred pension pots and 9 million active pots by 2035, without intervention.

The growth in the number of small pots is in no one’s interest. It brings potential cost consequences for scheme members, pension providers and the taxpayer and is likely to prevent members from achieving the best possible outcomes from their pension savings.



#### Potential solutions

Initiatives such as the Pensions Dashboards and the simpler annual benefit statement are hoped to prompt and enable member-initiated consolidation and the DWP’s view is that there is a place for member-led solutions. However, it is recognised by the Small Pots Working Group that this will not be enough. The Small Pots Working Group recommends that the pensions industry work with the government to “prioritise actions on enabling automatic and automated large-scale low-cost transfers and consolidation for the AE mass market”. Suggested solutions include:

- same provider consolidation
- pot follows member
- member exchange
- lifetime provider
- default consolidator.

For details of the above, please see our [DC briefing](#).

## Solutions for small pots cont.



### Actions for master trusts

Master trusts may be bearing the brunt of the problem, but they are also key to its resolution. The government needs them to engage with the issues to help inform its future proposals.

The Report recommends the industry establish operational focussed groups which will investigate and address administrative challenges which will be necessary to underpin mass transfer and consolidation systems. Key focus points for these groups will be:

- ✓ scoping the core minimum viable administrative processes (including, developing and testing data that would provide sufficient matching capability and developing and adopting common data standards)
- ✓ working towards implementing a single consumer facing view within a single member portal, with information on their pension pots
- ✓ member-exchange proof of concept trials involving low value small pots within master trust schemes, starting with a feasibility report in summer 2021.

Scoping / feasibility work is due to take place through 2021 and into 2022 but, as the Report notes, this schedule may be impacted by the findings.

In our view, the Small Pots Working Group's focus points represent a good starting point in terms of initial actions to take in this difficult area. We are also supportive of the Small Pots Working Group's suggested solutions more generally and agree that automatic solutions will in practice be necessary to complement member-led initiatives.

From a legal perspective, there is potentially more scope to implement some of the proposals in master trusts than in contract-based arrangements, given the ability of trustees, in certain circumstances, to move members' assets without their consent. However, a master trust's ability to conduct an exercise such as member exchange will depend on its precise circumstances, and will need the consensus of both sets of trustees and providers. It also needs careful thought, legal advice on trustee and provider powers and duties, written investment advice and extensive planning. All in all, not likely to be something that master trust boards and their providers will want to rush into.

As a starting point, we would encourage master trust boards to work with their provider over the coming months to determine, from a practical and commercial perspective, the extent to which member data can be matched and disclosed to members in a single format. Not only will this produce some "quick wins" for master trusts in this area, but it will also help them to prepare for some of the Working Group's other proposed solutions. As ever, even in these "easier" areas, a data matching and disclosure exercise is unlikely to be completely straightforward. For example, members may have multiple pots in the same funds, but each fund may apply different charging structures. Master trust trustees will want to work with their providers to understand the administrative and commercial complexity of disclosure and discuss how to address any challenges in this important first stage.



For further information, please speak to [Helen Ball](#), [Claire van Rees](#), [Jacqui Reid](#) or [Emma Martin](#) or your usual Sackers contact. You can also visit [www.sackers.com/expertise/schemes/defined-contribution/master-trusts](http://www.sackers.com/expertise/schemes/defined-contribution/master-trusts).