

Government announces small pots proposals

Sackers

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On 24 April 2025, the Government **unveiled proposals** aimed at making it easier for individuals to keep track of and consolidate their pension savings.

Background

- According to recent data¹, the average UK individual will hold 9 jobs in their lifetime and work for 6 different employers. This shift away from a “job for life”, coupled with the success of automatic enrolment, has resulted in the proliferation of small, deferred, DC pension pots.
- Growing numbers of deferred small pots results in potential cost consequences for scheme members, pension providers and the taxpayer, and is likely to prevent members achieving the best possible outcomes from their pension savings.

Multiple default consolidators

- Having explored available options over a number of years, in November 2023 the DWP **published** proposals for a multiple default consolidator system, under which members with certain deferred small pots would be automatically consolidated into a small number of authorised consolidator schemes.
- The Small Pots Delivery Group (“SPDG”) was formed to support the DWP in developing and designing its multiple default consolidator policy.
- On 24 April 2025, the SPDG issued its research and analysis report (“the Report”), alongside the Government’s announcement.
- The Report outlines key aspects of the design and implementation of the proposed multiple default consolidator system.

Eligible small pots



- A pot will become eligible for automatic consolidation 12 months after the last contribution was made into it.
- Initially pots of up to £1,000 will be in scope. The Secretary of State will review this limit at regular intervals.
- There will be no minimum pot size.



Structure

Drawing inspiration from the pensions dashboards ecosystem, a Small Pots Data Platform (“the Platform”) will be created. The Platform will be responsible for:

- data verification – including correct member data, contact details, confirmation a scheme has followed the correct process, and the pot is eligible
- data matching – using information provided by the transferring scheme to match a member to a previously consolidated pot within an authorised consolidator
- facilitating the consolidation process – checking for previous consolidation to identify any existing consolidator for the member, allocating consolidators for new members, informing transferring schemes of a member’s consolidation scheme. The Platform will not be actively involved in the asset transfer.



Data matching

Pension schemes will be required to comply with specified data standards in order to transfer and consolidate eligible small pots. These standards will be set out in regulations and accompanied by statutory guidance, all of which will be subject to consultation.

To ensure member pots are allocated correctly, there will be a high tolerance risk for partial matches and providers will be required to take reasonable steps to improve their data. They are encouraged to start this process before the requirements are introduced.

Authorisation and supervision

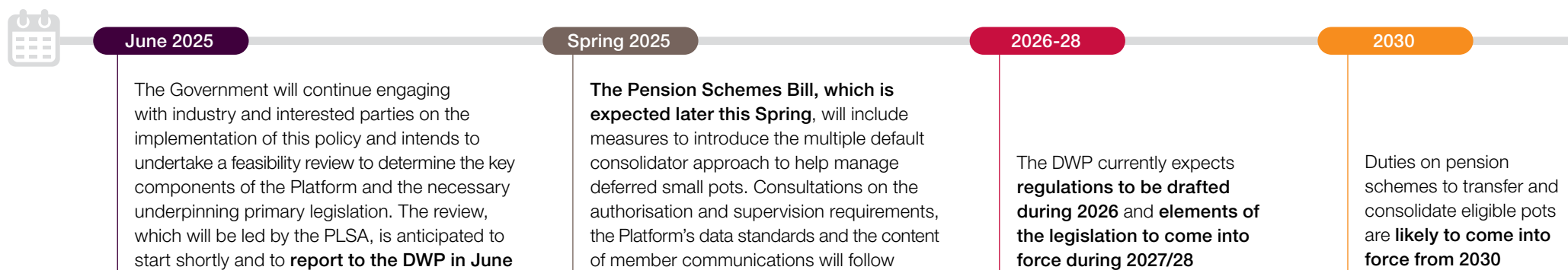
The majority of eligible small pots are currently held in master trusts. As they are already authorised to a high standard, rather than creating a new consolidator specific authorisation and supervision regime, the Government intends to build on the existing master trust framework. It will also work with the FCA to investigate options for a similar framework for contract-based schemes, with the aim of ensuring parity of requirements and member experience.

Allocation process

- First, members will be able to choose which consolidator their small pot is transferred to
- If they do not make an active choice, they will be allocated to the authorised consolidator holding their largest pension pot, or
- if none of their current pensions savings are held by an authorised consolidator, they will be allocated using the “carousel approach” (ie by dividing eligible small pots in equal proportions between the various authorised consolidators).

It will be possible for members to opt out of automatic consolidation.

Proposed timetable



For small pot consolidation to go live from 2030 will require a lot of work over a relatively short period. Trustees and employers should ready themselves by building on their dashboards preparations (in terms of data cleansing and matching) and keeping on top of the new legislation and guidance as it appears.

