Sackers

DWP launches consultation on consolidation of small DC pots

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Introduction

The DWP published a consultation on 15 September 2026 setting out its proposals for the automatic consolidation of deferred small pots through the establishment of multiple consolidator schemes. This is intended to help tackle the increasing number of deferred small pots across the pensions system.

Key points

- This consultation aims to develop the core components of the automatic consolidation system, including how consolidator schemes will be authorised, the standards and governance arrangements they will need to meet, and the necessary digital infrastructure and ecosystem.
- Having considered a range of delivery models, the Government has concluded that a “federated” delivery model, underpinned by a central oversight body, “is most likely to meet both the operational capabilities of the pensions industry and the needs of savers”.
- The multiple default consolidator solution will operate across both sides of the pensions market, with the DWP “committed” to minimising unnecessary friction “to ensure that pots can be consolidated from trust based to contract-based schemes and vice versa”. It expects a “high degree of parity” in how the framework is established, supervised and regulated across each space and is therefore keen for respondents to consider these regulatory relationships and interactions.

Background

Tackling the problem of small deferred pots

Automatic enrolment has increased the number of pension savers over the last 13 years. But a new pot can be created each time an eligible worker changes jobs, leading to a large and rapidly growing number of small, deferred pension pots. Currently there are around 13 million deferred pots worth less than £1,000, representing a total value of over £4 billion. This number continues to grow by around one million pots each year. The Government estimates that this “structural inefficiency” results in administrative costs of around £240 million per year across the industry, costs which ultimately fall on members.

Work to find potential solutions to this issue has been underway for several years. Following earlier consultations, in April 2025, plans for a multiple default consolidator system were unveiled alongside a report by the Small Pots Delivery Group outlining key aspects of the design and implementation. The legal framework for the policy is now contained in the PSA26.

The multiple default consolidator solution ("the Solution") provides a mechanism through which eligible small pots will be automatically transferred into a limited number of consolidator schemes unless a member opts out. This is designed to "balance system-wide efficiency with member protection".

Both master trusts and contract-based schemes will be eligible to become consolidators and will be subject to comparable regimes, with requirements in the trust space building on the current master trust framework.

Pots in scope

The Solution will apply to pension pots held within DC, charge-capped default funds created since the introduction of automatic enrolment on 1 October 2012. A default arrangement, for these purposes, is to be defined as one in which contributions are made and invested without the member having expressed an active investment choice.

To be eligible for consolidation, a pot must:

- have received no contributions for a period of at least the last 12 months
- have a value of £1,000 or less (but greater than zero).

Where a ceding scheme is in the process of winding up prior to the small pots regulations coming into force, small pots held within that scheme will not be eligible for consolidation under the Solution during the winding-up period. Smaller pension schemes (those with 100 members or fewer) will also be out of scope in the initial phase.

Key proposals

As this consultation is intended to inform further policy development ahead of implementation, it is light on concrete proposals. The intention is to develop the operational and regulatory structure needed to support the implementation of the Solution. It therefore seeks views on areas such as:

- the infrastructure and data requirements to enable pot matching and consolidator allocation
- the eligibility criteria for pension schemes and pots within scope, including the treatment of pots with guarantees or protections
- the authorisation regime for trust-based schemes to act as a consolidator, to be overseen by TPR, alongside provision for the FCA to make rules for contract-based schemes
- the supervisory framework and enforcement powers available to regulators, including the ability to, where appropriate, withdraw consolidator status where standards are not met
- the information requirements for members, including communication of their options, such as the right to opt out or select an alternative consolidator
- new duties on employers to provide relevant and up-to-date information to schemes in respect of their enrolled employees.

Proposed delivery model

The Government considered three main delivery models, supported by the work of the Pensions UK small pots digital systems feasibility review:

- **centralised:** a "clearing house" that maintains central records and processes all consolidations
- **federated:** a decentralised, industry-delivered system where schemes and consolidators exchange data directly using agreed standards
- **hybrid / "technology shield models":** centralised services providing shared functions without holding personal data.

It has decided that the most appropriate approach is to "implement a hybrid model that is scheme-led, based on federated activity within centrally governed standards". This will allow schemes to tap into existing and developing industry capabilities, whilst ensuring that all participants operate to common requirements.

The central oversight body would have two broad purposes:

- **standards-setting and governance:** establishing and maintaining the rules, standards and operational requirements that schemes must follow when participating in the small pots framework
- **digital interface and ecosystem coordination:** supporting the practical operation of the framework by enabling consistent interaction between participating schemes, consolidators, and any relevant service.

Building on the "useful foundation" of existing data standards developed for pensions dashboards, the Government proposes using a "common matching framework" with data standards to help ensure a uniform approach to determining whether two records relate to the same individual. Messaging standards would also determine how schemes send, receive and respond to requests.

What's next?

The consultation closes on 17 November 2026. Responses will inform the development of draft regulations which will be published alongside the Government's response.

A further consultation, planned for late 2027 / early 2028, will consider the detailed requirements for ceding schemes, the supervisory approach for those schemes, finalised data standards, and outstanding elements of the broader framework. The approach to implementation and delivery timelines will also be set out "in due course".

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