



# Small pension pots: any solutions?

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**The twin factors of an increasingly mobile UK workforce and automatic enrolment have resulted in an ever-growing number of small deferred or 'dormant' Defined Contribution (DC) pots.**

This subject has been raised in numerous Government reviews over the past decade, and with recent calls for evidence from the Department of Work and Pensions (DWP) and the Work and Pensions Committee (WPC) bringing it into focus again, it looks set to be a hot topic over coming months.

## Small pot problems

Small pension pots bring with them issues including those of complexity of administration, record keeping (both for schemes and members), and diminution of value with charges.

## Small pot solutions

- **Charges** – The DWP's summer Call for Evidence on the default charge cap asked how value for members can be increased, debating a possible decrease in the cap level, and whether the cap should cover transaction costs. Currently, the cap also permits charging on a flat fee basis. These fees have least impact on the largest funds and those who contribute over a number of years; as a fee is levied each month irrespective of whether contributions continue to be paid, savers with small pots can see their balances dwindle to nothing.

Accepting that flat fees can have a negative effect on small dormant pots, the consultation sought views on limiting their use, and proposed that a sliding scale could be used, restricting their level depending on pot value.

- **Aggregation** – Consolidation has been the subject of considerable interest and discussion within the industry. In its recent report on small pots, the Pensions Policy Institute (PPI) argues that policies aimed at consolidation are likely to provide a better long-term solution than tackling charging structures. The WPC has now asked the industry to propose workable suggestions, noting that consolidation could "form a major part of reducing the total cost of saving to individuals, whilst enabling a sustainable, competitive market for lower paid employees". It will consider this topic further 'early next year'.

The DWP pledges to "closely monitor the debate and all emerging research", and has said that it will consult on regulations encouraging smaller schemes to consider consolidation amongst themselves (where this would offer better member value).

- **Information** – When Guy Opperman ruled out the implementation of automatic transfers ('pot follows member') in 2018, he noted that members would benefit from the introduction of a pensions dashboard. This is now well on the way.

Making all an individual's pensions information available on one platform may improve engagement and reduce the number of 'lost' pensions – but is unlikely to prevent the number of pots increasing.

Whatever approach the Government decides to follow to address the proliferation of small pots, there will need to be a careful balance between the interests of members and what is commercially sustainable for providers.

This article was written prior to the Government's response to the consultation on Defined contribution pensions: investments and consolidation, and it's new consultation on Improving outcomes for members of defined contribution pension schemes, both issued on 11 September.