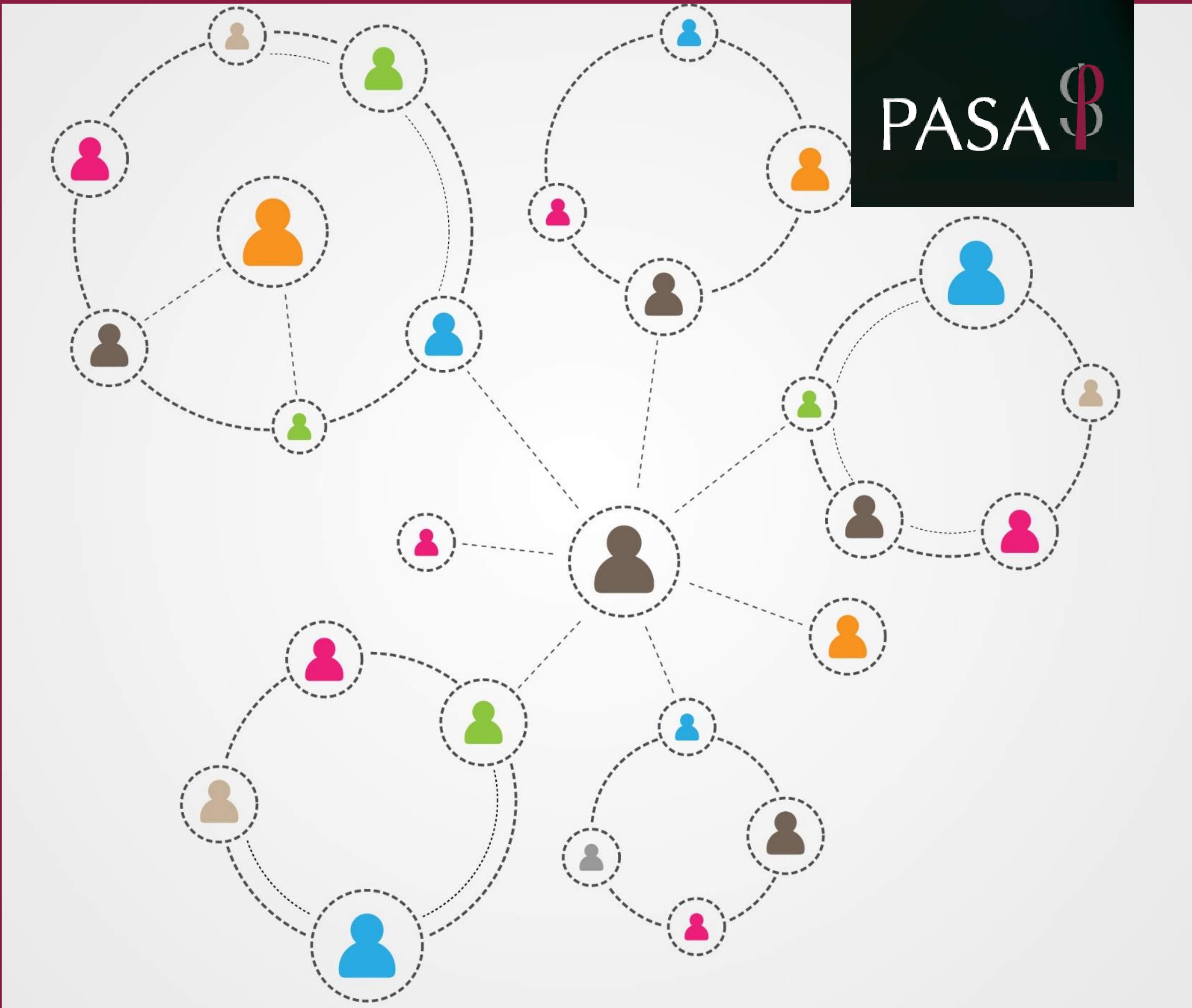

PASA Pot for Life Working Group (P4LWG)

DWP Call for Evidence: Looking to the future: Great member security and rebalancing risk

January 2024

DWP Call for evidence response –

Looking to the future: Great member security and rebalancing risk

Acknowledgments

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About PASA

The Pensions Administration Standards Association (PASA) was created to provide an independent infrastructure to set, develop, guide and assess administration standards.

PASA acts as a focal point and engages with industry and government to create protocols for understanding good administration - but also appreciates there's no one size fits all. PASA develops evidential Accreditation practices allowing benchmarking across and between the industry regardless of how the administration is being delivered.

As well as raising the profile of pension administration generally, PASA focuses on three core activities:

1. **Defining good standards of pensions administration relevant to all providers, whether in-house, third party or insurers**
2. **Publishing Guidance to support those standards**
3. **Being an independent Accreditation body, assessing the achievement of good standards by schemes**

There's no organisation providing such services across schemes, yet there's a demand for evidence of service quality from scheme trustees, sponsors, administrators, insurers, savers and regulators.

1 Summary

With default consolidation, dashboards, VFM and Consumer Duty taking up considerable bandwidth from administrators and schemes, any move ahead with a lifetime provider model should happen after those initiatives are bedded in and the lessons learned are understood. The industry is already struggling with a lack of administrative resources and new technology and systems will be required to deal with these new initiatives.

While a pot for life (P4L) framework has the potential to remove the future creation of multiple small pots, it will radically alter the relationship between providers and employers and could increase costs, administration, poor consumer decisions, increase fraud and negative outcomes.

2 Consultation questions and answers

1. What are the key considerations to take into account before deciding the process to implement a lifetime provider model and what elements would need to be in place?

Introducing such a fundamental change will impact employers, savers, pension providers, schemes, trustees, benefits advisers, payroll providers, software providers and regulators. New legislation, processes, software, data standards and advice frameworks will be required. With consolidation, VFM, Consumer Duty and dashboards all currently progressing, now isn't the time to implement a P4L model. All parties will need to learn from the outcomes of these other initiatives and understand how their roles and responsibilities will change.

While much can be learned from the Australian system, it's important to recognise the pensions landscape in Australia was in a very different position to the UK and it would be wrong to assume Australia's success with this type of system would be replicated here. In the UK we don't have the high levels of government involvement in the operation of our pension system, we have many more providers and no clearing house function. UK data quality is also generally lower, and saver engagement and understanding is poor.

Savers

With choice comes an increased need for advice. It's important to consider how to engage with savers as this will require a prolonged and sustained communication campaign. Consideration must be given to an advice framework to avoid poor decisions being made by savers, harming their retirement outcomes. Any P4L roadmap should allow for changes as the industry learns from the behaviour of savers.

There's a risk only a small percentage of savers engage with P4L, and they're likely to be those who are already engaged and managing their funds using existing methods. If this is the outcome, P4L could be deemed a failure and not achieve the intended goal.

Employers

For all savers to have access to P4L, all employers would need to participate from the beginning of P4L, which would present major resource and cost challenges for all employers around communications and administration.

Example administrative issues for employers include:

- New employee on-boarding costs and processes
- New and revised compliance requirements, such as AE duties and Consumer Duty
- Ensuring an individual's request is legal. i.e. employees of an audit firm aren't allowed to invest pension money into pension provider clients of their employer
- New processes, systems and technology
- Collection of money for both net pay and relief at source (RAS) arrangements
- Handling situations where a saver has more than one employer
- Creating and maintaining an audit trail of choices made

Providers and Administrators

The relationships between providers, administrators and employers are a core element of successful pension provision in the UK. New and different relationships will need to be created with previously unknown employers or directly with savers. Providers will need to develop new communications strategies and products. Providers will face increased challenges around Consumer Duty. Where providers aren't willing or able to do so, provider choice could be limited. It's important to gauge the willingness of providers to engage with P4L.

In countries where P4L is already in place, there are large marketing initiatives to capture savers. These come at great cost and can cause conflict between marketing and advice. This could lead to mis-selling.

Payroll Providers

It will be critical for employers and payroll providers to have simple and easy solutions allowing contributions to be made in a timely manner and to multiple pension providers. There's no central clearing house to simplify the process and ensure data standards and compliance with existing and new rules and regulations. A central clearing house and management by the Tax Office are key drivers of the P4L success in Australia and these don't exist in the UK. Payroll providers benefit from the BACS system for payroll, but no equivalent exists for pensions.

With or without a central clearing house, new processes, systems and technology will need to be developed.

2. What are the alternative viable mass market vehicles, including CDC, that can provide security for members while spreading risk, and address the transition into a pension income?

CDC is an alternative, although it's in its early stages. It's important providers continue to innovate new products and work on how to deliver advice to savers to make decisions around decumulation. Failure to do so will lead to poor outcomes for all. Alternative mass market vehicles could be a distraction when considering P4L.

3. What are the other considerations and building blocks that need to be in place before moving to a single lifetime provider, including any transitional arrangements?

Technical data standards will need to be put in place, in consultation with the industry. Some of the data standards required have already been created for dashboards, with more likely to be created for deferred small pot consolidation.

The industry should lead on creating and designing any technical architecture, and organisations should be required to support the automation of processes and avoid bottlenecks.

Consideration must be given to the lessons learned from other initiatives, such as consolidation, VFM, Consumer Duty and dashboards.

4. What are the advantages and disadvantages of moving to a member-led lifetime provider model prior to considering introducing a default lifetime provider model?

The main advantage of moving to a member-led lifetime provider model could be the ability to adapt based on lessons learned.

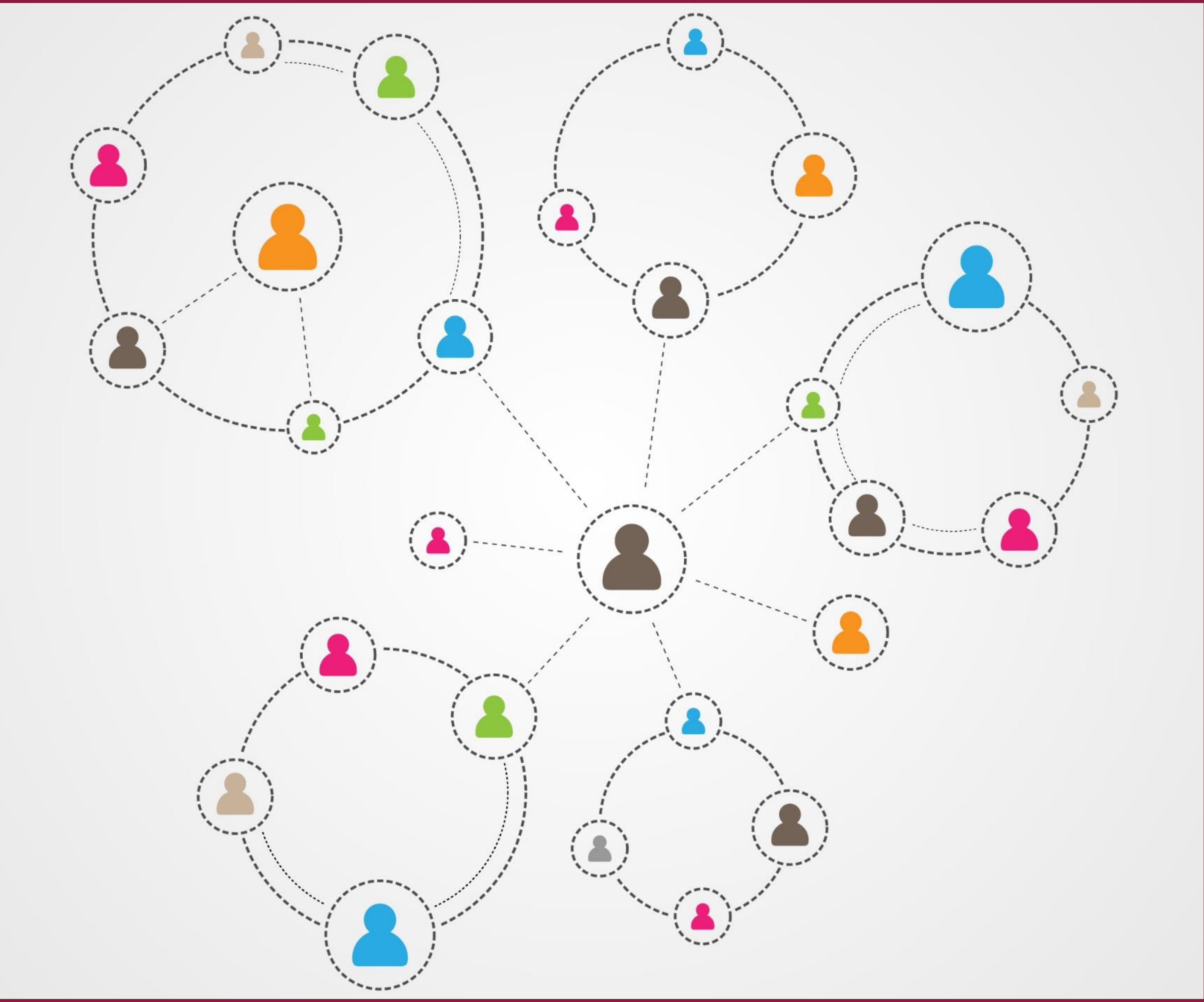
In the broader sense of either model, some examples of advantages and disadvantages are:

- **Potential disadvantages:**
  - The cost to industry and savers
  - Increased advice requirements
  - Poor saver outcomes due to poor/ill-informed decisions
  - Reduced employer engagement in providing high quality provider options to their employees
  - Increased administrative workloads
  - Increased litigation around mis-selling

- Potential advantages:
  - Increased saver engagement
  - Reduced small pot erosion due to charges
  - Reduction in creation of new small pots

5. What is the right timing and sequencing of these potential changes? Which part would best be implemented first and why, or should any be implemented concurrently?

With default consolidation, dashboards, VFM and Consumer Duty taking up considerable bandwidth from administrators and schemes, any move ahead with P4L should happen after those initiatives are bedded in and the lessons learned are understood.



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