



Peter Williams – 26 January 2012

Small pots and red tape

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the approval of Aon Hewitt.



Small pots and red tape

DWP consultation

- “Meeting future workplace pension challenges: improving transfers and dealing with small pension pots”
- Deadline 23 March – response by summer 2012

Cabinet Office debate

- Red Tape challenge
- Post your comments at www.redtapechallenge.cabinetoffice.gov.uk
- No specific deadline for pensions aspects

Improving transfers and dealing with small pots

Background

- Unlevel playing field between trust-based and contract-based DC arrangements
- Issue is refunds for members with less than two years' service
- Auto-enrolment obligations bring increased focus
- Call for evidence carried out last year

Improving transfers and dealing with small pots

Decisions made

- Prevent DC trust-based schemes from offering refunds...
- ... provided a solution for small pots can be implemented
- Changes expected to be introduced “as soon as 2014”
- DB trust-based schemes can continue to provide refunds
- Consultation is on options for the resulting small pots – three are considered; others not ruled out

Option 1 for small pots – small changes

Relatively minor changes to make member-initiated transfers easier/cheaper

- Providing information to encourage members to transfer
- Making transferring easier through standardised simple forms
- Require pension schemes to accept all transfers in irrespective of size
- Reduce the costs of admin for small pots – stop requirement for benefit illustrations?
- Promote existing services (Pensions Tracing Service) for helping all pots to be traced at retirement

Questions –

- Would these be effective?
- Any other ideas for easier/cheaper transfers?

Option 2 for small pots – aggregator scheme

An aggregator scheme (or schemes) would be set up

- Low charges and appropriate investment approach needed
- Small pension pots would automatically be transferred – unless member objects
- Trustees would have the right to initiate transfers – when employee leaves employment
- Aggregator scheme(s) would hold all the individuals small pots until retirement

Questions –

- Should NEST be the aggregator scheme?
- Should there be more than one aggregator scheme?
- Should transfer be compulsory below a certain amount?
- Should transfer be voluntary for schemes below a certain [higher] amount?
- Who should pay the transfer costs?

Option 3 for small pots – follow the individual

Small pots follow from job to job

- Transfer by default to the scheme their new employer automatically enrolls them in – can opt-out
- Dovetail with AE process and timings – initiated by new employer's scheme after opt-out deadline
- Would need to be electronic and include a database to match members and minimise costs
- Most ambitious!

Questions

- Should a maximum be applied - £10,000?
- How could a central database work?
- Could the pensions industry deliver a database?
- What happens if there's a large gap between jobs?

Small pots – wider questions

Which approach is best?

Any other options?

Is no requirement for advice ok?

Should members have the right to opt-out of the auto-transfer?

Should existing small dormant pots be included?

Should DB be included?

Red Tape challenge

Launched by PM in April 2011 – to do away with unnecessary regulations

- “Of the 1,200 regulations looked at so far, we have recommended scrapping over half of them”
– Sir Gus O'Donnell, December 2011

Pensions - open for comment and will shortly take its turn in the Spotlight

- State Pensions - 54 regulations
- Private Pensions – 160 regulations
- Pensions Protection (eg TPR, PPF) – 50 regulations

For each regulation the questions are –

- Should we scrap them altogether?
- Could their purposes be achieved in a non-regulatory way (eg voluntary code)? How?
- Could they be reformed simplified or merged? How?
- Can we reduce their bureaucracy through better implementation? How?
- Can we make their enforcement less burdensome? How?
- Should they be left as they are?

Red Tape challenge

Steve Webb comments

- “The presumption is that any piece of regulation or legislation about pensions will go unless we can justify its continued existence”
- “We would welcome nominations of bits of pensions regulation that are counter-productive, do nothing or are burdensome”

Red Tape challenge

What areas of pensions regulation might be axed/simplified?

- GMP equalisation?
- Employer debt
- CETVs
- LPI?
- Automatic enrolment requirements



To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the prior written consent of Aon Hewitt Limited.

Aon Hewitt Limited does not accept or assume any responsibility for any consequences arising from any person, other than the intended recipient, using or relying on this material.

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the approval of Aon Hewitt.

AON Hewitt