



Department
for Work &
Pensions

Automatic transfers: consolidating pension savings

Presented to Parliament by the Secretary of State
for Work and Pensions by Command of Her Majesty
April 2013

Cm 8605

£6.25



Automatic transfers: consolidating pension savings

Presented to Parliament by the Secretary of State
for Work and Pensions by Command of Her Majesty
April 2013

© Crown Copyright 2013

You may re-use this information (excluding logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or e-mail: psi@nationalarchives.gsi.gov.uk

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

Any enquiries regarding this publication should be sent to us at:

Private Pensions Policy and Analysis
Department for Work and Pensions
1st Floor
Caxton House
Tothill Street
London SW1H 9NA

This publication is available for download at www.official-documents.gov.uk and from our website at www.gov.uk/dwp#consultations

ISBN: 9780101860529

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2553689

04/13

Printed on paper containing 75% recycled fibre content minimum.

Contents

Foreword by the Minister of State for Pensions	4
Executive summary	5
Chapter 1 Introduction	7
Chapter 2 Eligibility for automatic transfer	10
Chapter 3 The automatic transfer process	15
Chapter 4 Next steps	23

Foreword by the Minister of State for Pensions

Reform of the United Kingdom's (UK's) state pensions system is well under way. Last year saw the introduction of automatic enrolment and confirmation of our plans to fundamentally reform the State Pension. We also published our strategy for reinvigorating private pensions,¹ which set out the key elements of a future private pension system that delivers good outcomes for those who save.

At the heart of our overall strategy is our commitment to support people in building up a better income for their retirement. I have already announced my intention to withdraw short service refunds for those in money purchase schemes and I can now confirm our intention that this will take effect from 2014. However, at the moment, every time someone moves to a new job there is a significant risk that they leave behind a small pension pot which may get stuck in the system. Without change, too many people could end up with an ever-increasing number of small, scattered pension pots and an inadequate retirement income. This is bad for individuals and inefficient for the pensions industry.

This is why our consultation document *Meeting future workplace pension challenges: improving transfers and dealing with small pension pots*² set out options to create an automatic transfer system. Our Government response³ confirmed our intention to bring forward primary legislation to create a 'pot follows member' automatic transfer system where, broadly speaking, people's pension savings move with them when they move jobs. As people build up larger pots they will have better visibility of their pensions saving, helping them to engage with their savings and plan for retirement.

We have been working closely with the pensions community to develop detailed proposals for how this automatic transfer system should work. These proposals are set out in this paper and, where we can, we have been specific about the features of the new system, for example which people and schemes would be within scope of automatic transfer and what the pot size limit should be. This paper also sets out how the delivery model might work, and signals our intention to work closely with interested parties to design the best model.

We aim to provide for a system of automatic transfers in the forthcoming Pensions Bill, with the detail covered in secondary legislation which will, of course, be subject to formal consultation. This will allow us to continue to work closely with the pensions community to come up with a system that is fit for purpose in the 21st century.

Pensions are far too important to be the preserve of the few. All workers deserve a decent income in retirement, and I look forward to continuing to work with you all over the coming months to help to ensure that as people move jobs, they continue to get the best from their pension saving.



Steve Webb MP
Minister of State for Pensions

¹ *Reinvigorating Workplace Pensions* (Cm 8478) – November 2012.

² Cm 8184 – December 2011.

³ Cm 8402 – July 2012.

Executive summary

Automatic enrolment will see millions of people saving into a private pension for the first time and will make pension saving the norm. However, without further reform, automatic enrolment will create up to 50 million dormant pension pots by 2050. Automatic transfers will help to consolidate pension savings into an individual's current employer's scheme. This will make it easier for people to keep track of their pensions saving, plan better for their retirement and secure a better income in retirement.

Chapter 1 explains the context for change and our work to date. Following our formal consultation, this paper sets out the background to our policy thinking and our proposals on how a system of automatic transfers would work in practice. The principle underpinning our proposals is to make it easy for pension savers to combine small, dormant pension pots into their current pension schemes, while keeping administrative complexity for schemes and employers to a minimum. Our solution aims to be cost-effective for the pension industry and members. We believe that our proposals, which are summarised below and covered in more detail in Chapters 2 and 3, strike a reasonable balance for individuals and the pensions industry.

Chapter 2 sets out our proposals for eligibility criteria for automatic transfers: which schemes, individuals and pension pots should be subject to the requirements.

We intend to retain flexibility over these criteria so that, if necessary, we can modify them in the future as we gain experience of operating automatic transfers or to respond to the changing pensions landscape.

In **Chapter 3** we set out how automatic transfers would be made. We will create a broad legal framework in the forthcoming Pensions Bill to permit a variety of implementation approaches to be taken. In this chapter we deal specifically with a 'pot-matching' IT solution and a model where employees pass information regarding their existing dormant pension pots to their new employers when they start work, or at regular intervals.

6 Executive summary

Chapter 4 explains our next steps in the delivery of automatic transfers. This will begin with the successful passage of the forthcoming Pensions Bill through its Parliamentary stages, and continue as we work with interested parties to develop the transfers process and the detailed legislation to support it. In due course, following Royal Assent to the Pensions Bill, we will publish a formal consultation on draft regulations.

Summary of key proposals

- We propose that:
 - automatic transfers will take place between money purchase schemes;
 - automatic transfer will apply to all members in workplace pension schemes who are workers;
 - a pot will be eligible for automatic transfer either once all contributions have ceased and the individual has left employment or once all contributions have ceased for a prescribed period;
 - a pot will be eligible for automatic transfer as long as the pot was created after a certain date;
 - the pot size limit will be £10,000 with a requirement on the Secretary of State to review the limit and revise it if appropriate;
 - there will be an option for members to opt out and leave their pension pots in their previous employer's scheme, retaining the right to initiate a transfer to an alternative pension arrangement.
- We may prescribe standards for automatic transfer schemes.
- We will work with interested parties to develop a transfer process based on either a pot-matching solution involving an IT system or a member-driven approach using a 'Pensions Transfer Information Document'.
- Regulations will specify what information should be given to the member, and by whom, so that the member is properly informed about the nature of the transfer process and the effects it may have on their benefits.
- The Pensions Regulator (TPR) will be the main enforcement body for the automatic transfer process. The approach to regulation would be aligned with the overall regulatory approach for DC pensions schemes (currently under consultation). Details of the requirements and penalties for breaches would be set out in regulations.
- Short service refunds proposed to be withdrawn for those in money purchase schemes from 2014.

Introduction

1

- 1.1 Reform of the United Kingdom's (UK's) state pensions system is under way. Our proposals to reform the State Pension will make it easier for people to know what to expect from the state, helping them to plan their private pension saving. In November 2012, we also published *Reinvigorating workplace pensions* (Cm 8478)⁴ which set out the key elements needed for a future private pension system that delivers good outcomes for those who save.
- 1.2 The first six months of automatic enrolment have gone well, with the largest employers putting their workers into a workplace pension. Early signs that people are staying in are encouraging. Once all employers start automatic enrolment we expect six to nine million people to be newly saving or saving more in a workplace pension.
- 1.3 However, we want to make sure the money that people and their employers put into pension savings gives them a better income in retirement. We have already announced our intention to withdraw short service refunds (SSRs) for money purchase occupational pension schemes at the earliest legislative opportunity. We propose that this rule change will take effect in 2014. The withdrawal of SSRs will make it even more important that we find a solution to reduce the number of dormant pots.
- 1.4 Under the current system, individuals can transfer their pots voluntarily, but the onus rests with the individual, and both trustees and providers have ultimate discretion as to whether to accept a pot. We therefore want to make it easier for people to consolidate their pension savings so that they can easily see how much they have saved; so that they do not lose track of small pension pots or have difficulties when buying their pension income at retirement; and so that they do not incur higher charges on pots to which they are no longer contributing.

⁴ <http://www.dwp.gov.uk/reinvigorating-workplace-pensions>

8 Introduction

- 1.5 Analysis has shown that on average people work for 11 employers during their careers⁵. Under automatic enrolment, each time a person moves jobs they are likely to leave a pension pot with their last employer. We expect automatic enrolment to create around 50 million dormant pension pots by 2050, around 12 million of which will be under £2,000 and 33 million under £10,000⁶. Without change, this proliferation of dormant, often small, pension pots will lead to poor outcomes for individuals and inefficiency for the pension industry administering multiple, small pension pots for any individual⁷.
- 1.6 In December 2011, we issued our consultation document *Meeting future workplace pension challenges: improving transfers and dealing with small pension pots* (Cm8184⁸) which set out options ranging from small changes to the current system to encourage voluntary transfers, to automatic transfer of small pots. Our key principles for reform were to promote good retirement incomes and engagement with saving for individuals, whilst minimising administrative and cost burdens for employers and schemes. Although there was a wide divergence of opinion on how to come up with an effective solution, there was a general agreement amongst respondents that a solution was needed.
- 1.7 In July 2012, we published our Government response to this consultation, *Improving transfers and dealing with small pension pots* (Cm 8402)⁹. We also published an impact assessment¹⁰ which remains current today. A further impact assessment will be published when we consult on more detailed regulations.
- 1.8 In the consultation document, we set out our intention to bring forward primary legislation at the earliest opportunity to allow for a system of automatic transfers of small pots. We also agreed that defined benefit (DB) pension rights and legacy pots (ie. older pots) should be out of scope at this stage and that there should be provision for opt out. We said we would work closely with interested parties to understand how an automatic transfer solution might be implemented and funded, as well as explore a number of issues further in developing options for reform, such as consumer detriment and potential costs to industry, employers and government. The automatic transfer process needs to be as cost-effective as possible and place only a reasonable amount of burden on industry.
- 1.9 Since then we have been taking forward work on how we might design and deliver our policy and talking to a wide variety of people, including pension providers, consumer representatives, third-party administrators and employers. We were grateful to hear their views and we will continue to engage with interested parties as our thinking develops.
- 1.10 We have made good progress and can now give certainty in some areas: for example, on which individuals or schemes would be within scope of automatic transfers and what the pot size limit should be. In other areas, such as how the delivery model might work, whilst we do have a lead option, we are keen to keep other options in play whilst we work through the impacts and risks of the different approaches.

⁵ *Making automatic enrolment work* – Cm 7954 October 2010.

⁶ Estimated using the PENSIM2 model; expressed in 2012 earnings terms.

⁷ More information on the case for change can be found in our consultation document *Meeting future workplace pension challenges; improving transfers and dealing with small pension pots* and the accompanying impact assessment (<http://www.dwp.gov.uk/consultations/2011/small-pension-pots.shtml>)

⁸ <http://www.dwp.gov.uk/consultations/2011/small-pension-pots.shtml>

⁹ <http://www.dwp.gov.uk/docs/gov-response-small-pots-automatic-transfers-consultation.pdf>

¹⁰ <http://www.dwp.gov.uk/consultations/2011/small-pension-pots.shtml>

- 1.11 We propose to establish a legal framework for automatic transfers through the forthcoming Pensions Bill. The detail would be provided for in secondary legislation which would be subject to formal consultation. We intend to prescribe eligibility conditions for automatic transfer, and to place legal obligations on ceding and receiving schemes to provide information and to carry out automatic transfers. People who wish to transfer their pots voluntarily would still be able to do so under the existing provisions.
- 1.12 The purpose of this paper is to give some background to our proposals for a system of automatic transfers. It sets out the areas where we can give policy certainty and where we will carry out further work with interested parties.

Eligibility for automatic transfer

2

- 2.1 Our guiding principle for reform is to maximise the number of pension savers who can consolidate their small pots whilst keeping things as simple as possible for employers, providers and third-party administrators. We want individuals to be confident that the money they and their employer contribute to their pension will go towards their retirement and not end up stranded, lost in the system or eroded by charges on deferred pots.
- 2.2 We have developed these proposals following our own policy analysis and discussions with interested parties, in particular those from the pensions industry and consumer representatives. The legal framework will set out which types of pot or individuals are eligible for automatic transfer. This will ensure that there is no ambiguity for individuals or judgment burden for schemes.

Transferring and receiving schemes

- 2.3 In our Government response *Improving transfers and dealing with small pension pots* (Cm 8402)¹¹, we agreed that DB pension schemes would not be within the scope of automatic transfer. Because of the way DB rights are structured, it is often not in the financial interests of individuals to have these rights transferred, nor would it be easy for schemes to facilitate the transfer of individual liabilities.
- 2.4 We therefore propose that, at least initially, the automatic transfer process would only apply to 'pure' money purchase benefits that have accrued to the individual in a money purchase scheme and we aim to set this out in primary legislation. By 'pure' money purchase benefits we mean those benefits that are calculated solely by reference to the assets held in the fund (in other words, contributions, tax relief and investment returns) and nothing else. This aligns with the new definition of money purchase benefits provided for in the Pensions Act 2011.

¹¹ <http://www.dwp.gov.uk/docs/gov-response-small-pots-automatic-transfers-consultation.pdf>

- 2.5 This means that where benefits under a money purchase scheme are calculated with regard to any other factor, such as a guaranteed investment return, the scheme offering those benefits to the individual would fall outside the scope of the automatic transfer provisions. We propose that the receiving scheme would be a scheme where all the benefits are money purchase, with a regulation making power to broaden this out to other schemes such as those capable of providing money purchase benefits, if it becomes appropriate.
- 2.6 Our overall aim is to achieve an effective balance between maximising consolidation and minimising administrative complexity. So we consider that a good starting point would be for automatic transfers to apply only in a 'like for like' situation, where both the ceding and receiving schemes are money purchase.
- 2.7 We also want to ensure that any automatic transfer system can encompass, or exclude, other scheme types if it is appropriate to do so. For example, as the future pension landscape evolves, we may want to include the kinds of pension that might be developed under our defined ambition proposals.
- 2.8 We therefore propose that our legal framework will allow us to extend automatic transfer to other types of scheme or benefits, or to exclude certain descriptions of schemes from scope, if appropriate.

Proposal:

That automatic transfers should initially take place only between money purchase schemes (that is, between schemes in which all the members' benefits are calculated solely by reference to assets held in the fund), but with the scope to extend or narrow if necessary. The schemes to be covered by automatic transfer will be set out in regulations, which would be subject to formal consultation.

Eligible individuals

- 2.9 We want as many people as possible to benefit from automatic transfer. So we propose that the automatic transfer requirements would apply initially in respect of any person who is a worker and who is an active member of a workplace pension scheme. This means that we would be going broader than simply including people who are automatically enrolled.
- 2.10 We would be including a broad category of individuals, including eligible jobholders who have been automatically enrolled, jobholders who opt in to pension saving, workers without qualifying earnings who have joined the pension scheme, people who are already members of qualifying schemes, and those who 'contract join' their schemes – that is, who became scheme members as a condition of their employment, rather than under the legislative requirements of the Pensions Act 2008.
- 2.11 However, we recognise that it may become appropriate to broaden the categories of individuals within the scope of automatic transfer. For example, we may wish to include some self-employed people. Or, conversely, we may want to explore whether to exclude certain individuals such as those who are close to retirement.

12 Eligibility for automatic transfer

Proposal:

Automatic transfers would initially apply in respect of any person who is a worker and an active member of a workplace pension scheme, but there would be scope to refine and broaden this application if necessary. Details would be covered in regulations which would be subject to formal consultation.

Pots eligible for transfer

2.12 We propose that a pot would be eligible for transfer where:

- both the member and the employer have stopped paying contributions into the scheme. This may be coupled with a requirement that the member is no longer working for the employer. However, we would aim to retain flexibility here so we can carry out further work with interested parties to see how this might work in practice;
- the pot first began to accrue after a certain date, which would be specified in regulations. We want to fully explore how automatic transfers would be introduced. Older pots are more likely to have features that are no longer available elsewhere, which makes it preferable to tackle the newer pots first. However, we want to retain the flexibility to apply the automatic transfer regime to benefits that have accrued from an earlier point in time. This would allow us to further maximise consolidation by including older pots, possibly on a staged basis, at a later date, if appropriate. It would enable, for example, the regime to help consolidation for women who have taken time out of the labour market to raise a family.

Proposal:

We propose that a pot would be eligible for automatic transfer once all contributions have ceased, as long as it was created after a certain date, but we aim to retain flexibility in this area so we can carry out further work with interested parties.

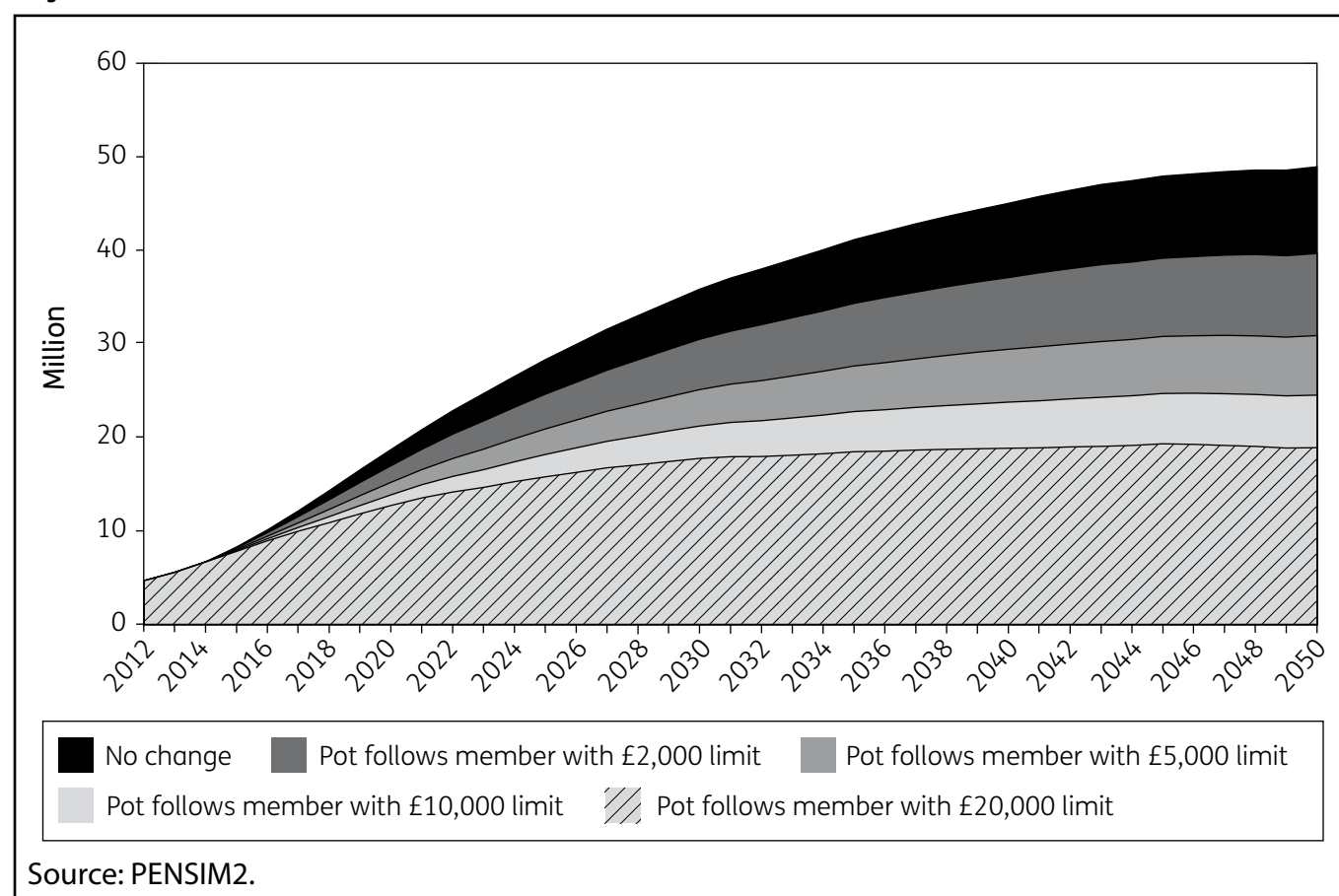
Pot size

2.13 Figure 1 shows the total number of dormant pots, under different pot size limits, that we expect there would be where a pot moves automatically to a new employer's scheme, compared to what would happen under the current arrangements.

2.14 This shows that a pot size limit of £2,000 would leave around 40 million dormant pension pots in 2050, compared to 50 million with no change. A pot size limit of £20,000 is estimated to leave less than 20 million dormant pension pots. Whilst these numbers are sensitive to our assumptions, it is clear that the higher the pot size limit for automatic transfers, the greater the level of consolidation. Full details of this analysis are in the impact assessment.¹²

¹² <http://www.dwp.gov.uk/consultations/2011/small-pension-pots.shtml>

Figure 1: Projected total number of dormant pots where the pot follows member from job to job¹³



- 2.15 There are trade-offs that we considered in deciding a pot size limit for automatic transfers. We aim to achieve sufficient consolidation to encourage individuals to take note of, and engage with, their pension saving and to give them enough visibility of their savings to help them plan for retirement. We also need to sufficiently mitigate the risk that individuals lose track of pots and miss out on retirement income. This might point us towards higher pot size limits.
- 2.16 On the other hand, a higher pot size has a greater potential risk of detriment where an individual moves between schemes with different features, though we might expect a range of potentially offsetting detrimental and beneficial impacts over an individual's working lifetime. Our proposed standards for automatic transfer, discussed in the next section, would help mitigate this risk.
- 2.17 We also want to ensure that individuals can use their pots to buy an annuity on the open market at a competitive rate, currently generally possible for pots larger than £10,000. The Association of British Insurers' *Code of Conduct on Retirement Choices*¹⁴ published on 1 March should make this easier for individuals. From a scheme perspective, we need to consider the extent of administrative savings for schemes where the pot follows the member from job to job.

¹³ Based on PENSIM2 which simulates, among other things, future participation in the labour market, savings behaviour (including opt-out rates and the type of schemes individuals save into) and the value of pension pots after fund growth and charges. Assumes automatic transfer begins in 2015/16.

¹⁴ *Consumers in the Retirement Income Market – Code of Conduct on Retirement Choices* – Association of British Insurers – March 2013.

14 Eligibility for automatic transfer

- 2.18 Balancing all these factors, we therefore propose that initially the pot size limit should be £10,000. We estimate that this would achieve reasonable consolidation for individuals by leaving only around 1 in 30 (or less than 4 per cent) of those retiring between 2050 and 2060 with five or more dormant pots. A lower pot size would achieve less consolidation and therefore would not achieve our policy intention. We also estimate that a £10,000 pot size would achieve significant benefits for industry, with a 50 per cent reduction in the number of dormant pots by 2050 and administrative savings totalling £6.4 billion by 2050¹⁵.
- 2.19 We also need to ensure that the pot size limit remains relevant in the future and continues to meet our policy objectives. So, we further propose that the Secretary of State should be required to review this limit at least every five years and revise it if appropriate. In reviewing the limit, the Secretary of State would take into account earnings levels, prices and any other factors considered to be relevant.

Proposal:

The pot size limit would be £10,000, with a requirement on the Secretary of State to review this limit and revise it if appropriate.

Scheme standards

- 2.20 TPR have issued guidance on good features of DC pension schemes¹⁶. However, we need to ensure that automatic transfers operate in a way that is secure and safe, and that we provide appropriate protection to individuals. We therefore propose that the broad legal framework for automatic transfers should allow us to specify standards for automatic transfer schemes.

Proposal:

We propose to set standards for automatic transfer schemes. These standards would be set in regulations and would be subject to formal consultation.

¹⁵ In Net Present Value (NPV) terms.

¹⁶ <http://www.thepensionsregulator.gov.uk/professionals/defined-contribution.aspx>

The automatic transfer process

3

- 3.1 Any automatic transfer process would, at the highest level, consist of three elements:
 - identifying an eligible dormant pot as belonging to an eligible individual;
 - ensuring that the individual saver is given relevant information to help them decide whether or not to go ahead with a transfer; and
 - initiating (where appropriate) and effecting the transfer of a pot from the ceding to the receiving scheme.
- 3.2 We will work with all interested parties to develop, and put in place, a viable and cost-effective automatic transfer process for schemes and their members. We are aware of the risks of creating a high-cost process which causes providers to increase charges for members. The process will need to balance the need for simplicity, speed, security and a standardised approach.
- 3.3 Any pension scheme used for the purpose of automatic transfers needs to be a legitimate pension scheme and it is important that any scheme is not used inappropriately. In designing the scheme, we are alert to the possibility of fraud, including pension liberation fraud, and will work to minimise these risks.
- 3.4 There are various ways in which the first goal of identifying an eligible dormant pot might be achieved – through either a pot-matching IT solution or an employee information system, both of which have merit. Our own analysis, and the many useful discussions we have had with our stakeholders to date, suggest that a pot-matching IT system would be preferred. However, there is much work to be done to agree when and how schemes would interact with this, and to refine and agree the details of such a system. By retaining flexibility as we work with stakeholders on the details of implementation, we are seeking to avoid constraining further innovation by being too prescriptive in primary legislation.

16 The automatic transfer process

- 3.5 The forthcoming Pensions Bill will therefore include provisions requiring pension schemes to provide information about dormant pension pots held by members, and to initiate and process transfers of those pots. The detail would be prescribed in regulations, which would themselves be subject to formal consultation.

Proposal:

The forthcoming Pensions Bill will contain provisions relating to the automatic transfer requirement, while the details of the requirements and of the transfer process itself will be specified in regulations. We will work with interested parties to develop a viable and cost-effective automatic transfer process for schemes and members.

- 3.6 We propose that the transfer process would involve the following stages:
- the ceding pension scheme (the ‘transferable benefits scheme’) becomes aware that a member’s pot is potentially eligible for transfer;
 - the transferable benefits scheme would be required to issue specified information about the pot, which would make it possible for the pot to be identified and for a transfer request to be made in respect of it;
 - either when the member joins or is automatically enrolled into a new employer’s pension scheme (the ‘automatic transfer scheme’), or at regular intervals, the automatic transfer scheme is required to search for information about the member’s dormant pot (or pots);
 - if the pot in question is eligible to be transferred, the member is informed that the dormant pot would be transferred into the new scheme, unless the member opts out. The member is given information as part of the opt-out process;
 - if the member does not opt out of the transfer process, the automatic transfer scheme requests the transferable benefits scheme to transfer the dormant pot;
 - the transferable benefit scheme makes the transfer. On completion, there is a statutory discharge for the transferable benefit scheme: the provider would have no further legal obligations to provide pensions benefits to that member.

Possible automatic transfer processes

- 3.7 We are actively considering the merits and possible disadvantages of two broad approaches to initiating the transfer process:
- a pot-matching solution involving an IT system; and
 - a ‘member-driven’ approach in which a member leaving an employer is given information relating to their pot in the former employer’s pension scheme (the ‘Pensions Transfer Information Document’), which they pass onto their new employer on starting work. For example this might work in a similar way to the PAYE P45 form.
- 3.8 We are considering further how best to balance the features of both approaches against: the cost of setting up and operating them; the extent to which they achieve the policy intention; how far they encourage member engagement; their capacity for development and upgrade as policy and technology develops in the future; and the degree of security they offer to members’ personal information. The legislative approach we are adopting would allow us to make regulations prescribing whichever process best addresses these issues.

- 3.9 **Figure 2** sets out the process for the pot-matching approach. This approach would require a central IT system. This could either be set up by industry or there could be a role for the Government. If the Government did build and maintain the system, we would expect to recover the costs from the industry. If the industry were to build and operate a database, we would have to ensure full coverage across both the trust- and contract based sectors. To do this we would consider implementing the 'Pensions Transfer Information Document' process (as set out in Figure 3) alongside the industry's own process.
- 3.10 Under the pot-matching approach, the transferable benefit schemes would be required to upload to the system information relating to pension pots within their schemes that are eligible for automatic transfer. When the transferable benefit schemes' deferred members join their new employers' schemes, the new schemes would, in turn, be required to 'interrogate' the system to check for pots belonging to their new members and to begin the transfer process.
- 3.11 There would be costs involved in setting up and maintaining the system. This would depend on a range of factors, including the type and amount of information stored, who has access to it, how and where they access it, and the level of automation. Information might be entered and downloaded manually, in which case providers may incur some costs in adapting their processes and IT systems to interact with it. Steps would have to be taken to ensure the security of the personal data held on the pot-matching system.
- 3.12 This approach is likely to deliver an outcome in line with the policy intention and is close to the 'pure automatic transfer' ideal. There may be some involvement for employers, for example in ensuring that their pension providers are kept informed of cessation of membership and employment, but we would seek to minimise such involvement to ensure that there is not a significant additional burden on employers. Members would have to decide whether or not to opt out of the transfer.
- 3.13 **Figure 3** sets out the 'Pensions Transfer Information Document' process.
- 3.14 This process involves requiring the transferable benefit scheme to give information to members about any pension pots that are eligible for transfer under the automatic transfers system. On commencement of a new employment, the member would give the information to their new employer when requested to do so as part of their normal induction process, and their new pension scheme would then initiate the transfer process.
- 3.15 There is no central data matching system associated with this approach, so both set up costs and the risk of security breaches may be lower. There is also scope for this approach to be flexed to allow new ways of giving individuals their personal data, for example in a digital format.
- 3.16 However, the approach does rely for its smooth operation on each individual person keeping the information given to them by their previous employer's scheme and presenting it to the new employer promptly on starting work. There is scope for 'leakage' from the automatic transfer process if members lose their information or do not pass it to schemes when requested to.
- 3.17 Although there are similar risks for P45s, employees are incentivised to pass these on to their new employer. We need to consider how we could encourage people to pass on their pensions information.

Figure 2: Pot-matching system: high-level process map

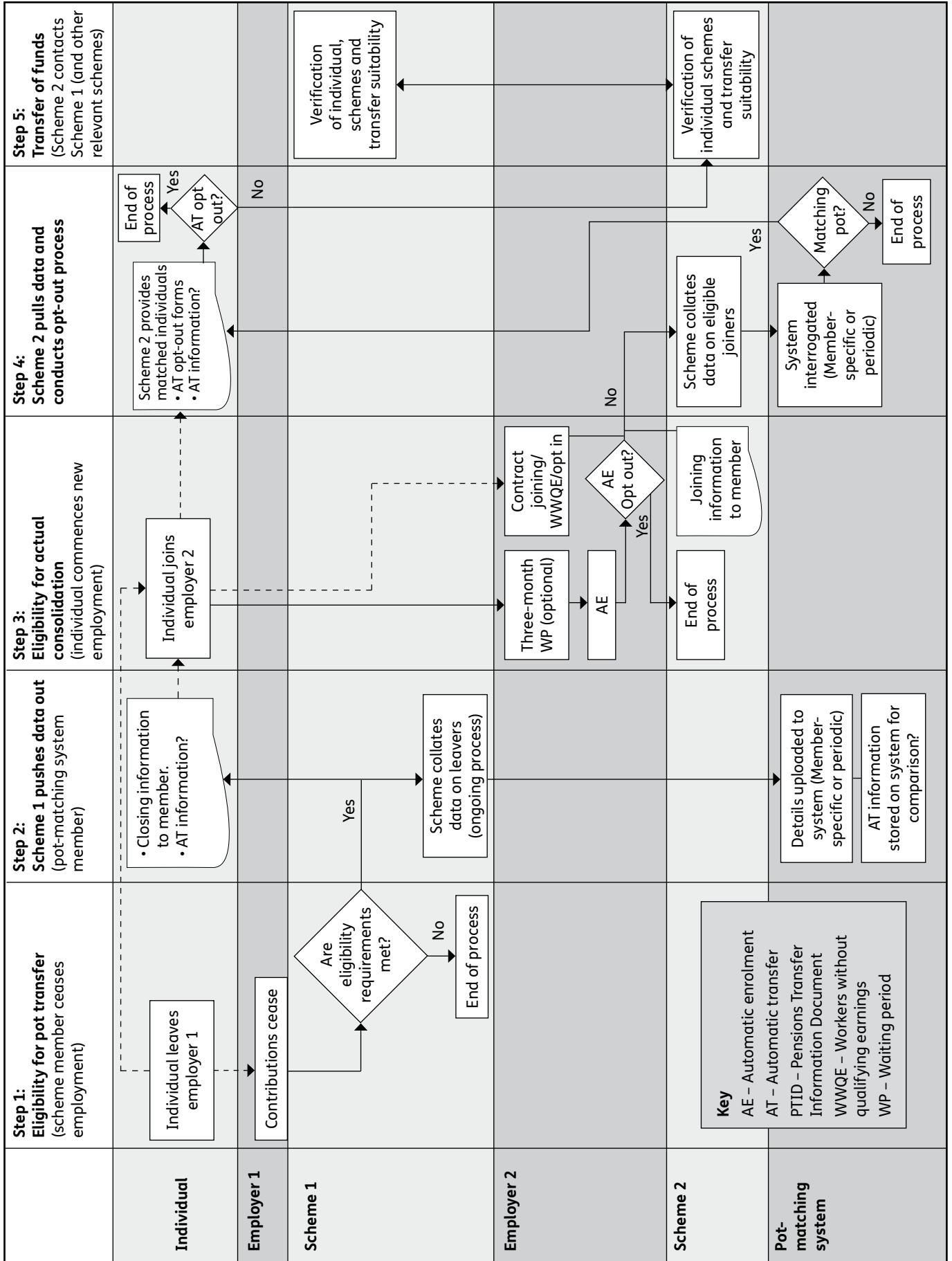
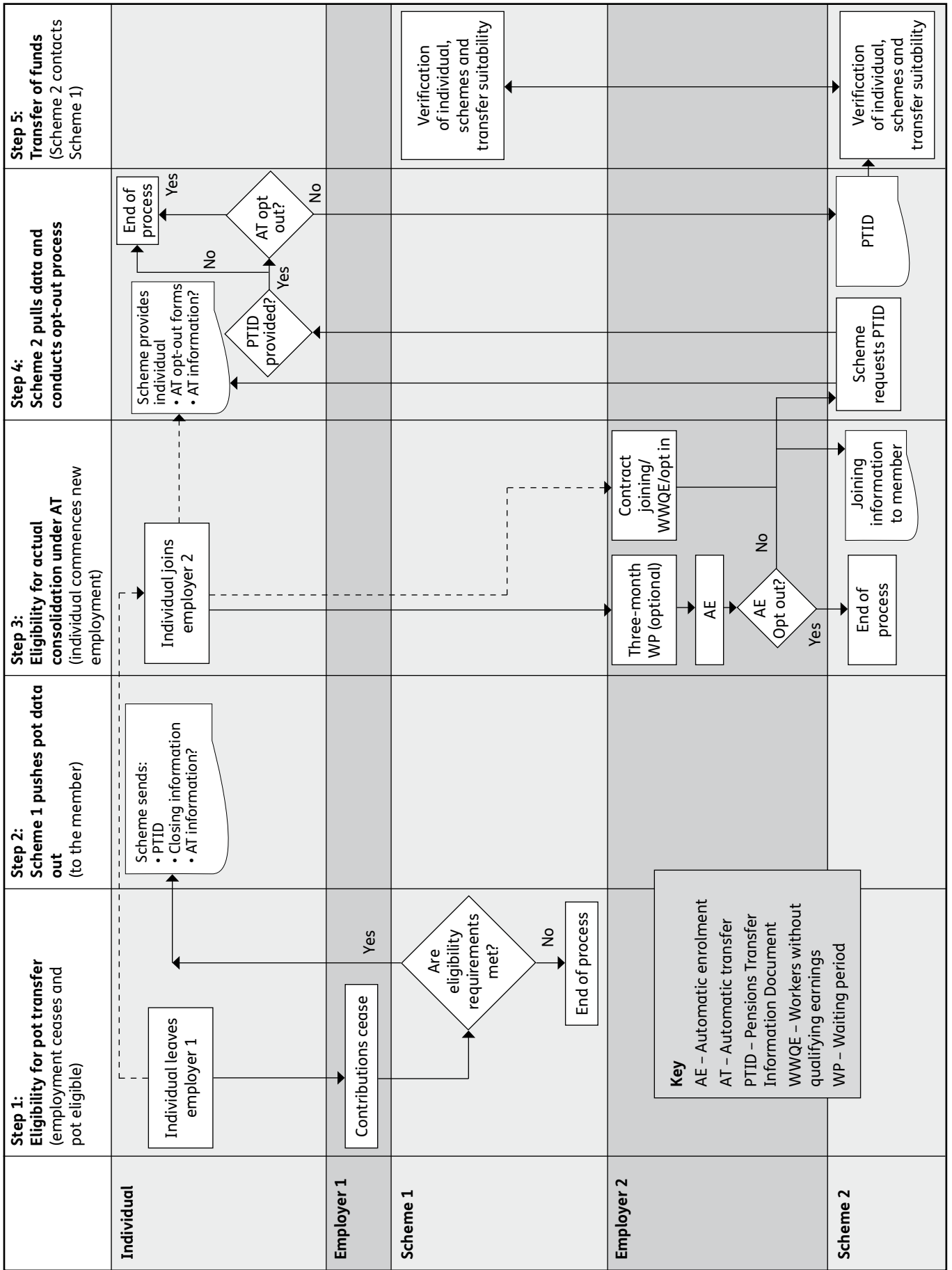


Figure 3: Pensions Transfer Information Document high-level process map



Key

- AE – Automatic enrolment
- AT – Automatic transfer
- PTID – Pensions Transfer Information Document
- WWQE – Workers without qualifying earnings
- WP – Waiting period

Proposal:

We propose that there should be two potential approaches to the automatic transfer process:

- a pot-matching solution involving an IT system; and
- a ‘member-driven’ approach in which members leaving an employer are given information relating to their pots in their former employers’ pension schemes, which they pass on to their new employers on starting work (the ‘Pensions Transfer Information Document’).

The details of the process would be specified in regulations, which would be subject to formal consultation.

Opt out

- 3.18 Some individuals may decide that they would rather keep their small pension pots within their existing schemes. We therefore propose to give individuals the opportunity to opt out of an automatic pension transfer if they wish. We would envisage this opt-out process being handled by schemes, rather than employers.
- 3.19 We therefore propose that automatic transfer of the member’s benefit should not take place if the member decides to give notice to the automatic transfer scheme that they do not want the transfer to take place. There would be a prescribed period for the member to give this notice and if this notice is given the transfer would not take place, and the member’s pot would remain in the original scheme.
- 3.20 The form and content of the opt-out notice, the person to whom the notice must be given, the arrangements for issuing the notice, and the action that the individual must take on receiving the notice would be set out in regulations. We will also be considering whether there should be a statutory opt-out notice in a particular form or whether to provide more flexibility to schemes.

Information to be given to the member

- 3.21 We want to ensure that people who move jobs and pension schemes get sufficient and appropriate information to help them decide whether to opt out of automatic transfer. We would aim to do this in a way which minimises burdens on schemes and employers.
- 3.22 We propose that schemes or employers should be required to give certain information to members about the effect of automatic transfers and their right to opt out.
- 3.23 We will have the flexibility to develop a legal framework which can also be tailored over time as the pensions landscape changes. We aim to ensure that minimal additional information is required and, as far as possible, we want to be sure that only information that has a material effect on an individual’s behaviour is required.

Proposal:

Automatic transfers would not take place if the member decided to opt out and leave their pension pot in a previous employer's scheme. Details would be prescribed in regulations.

Regulations would also specify what information should be given to the member, and by whom.

All these regulations would be subject to formal consultation.

The frequency of automatic transfers

- 3.24 Automatic transfers could be made on a member-specific basis, or a periodic basis. It is anticipated that any new system would be looking to accommodate over a million automatic transfers a year¹⁷.
- 3.25 On the 'member-specific' approach, the automatic transfer process could be initiated very shortly after the member starts work with the new employer and joins the new scheme, so that consolidation occurs swiftly as an individual moves through various employments. It could be tied into the automatic enrolment process as far as possible to minimise the administrative burden. This would help individuals to maintain contact with their pension savings. Alternatively, activity could be undertaken at periodic intervals, delivering consolidation gradually throughout an individual's working life and reducing the possibility of the same savings being transferred several times.
- 3.26 More broadly, as the detailed process for implementing automatic transfers is established, we would need to consider both the processes for joining a pension scheme at the commencement of employment (including automatic enrolment and contract joining), and the specific roles of various parties, including employers, schemes and individual members. The need to minimise both burdens and the potential for confusion or error will be key to developing a viable approach.
- 3.27 Having discussed the possible options with stakeholders, we incline towards providing that automatic transfers should be undertaken in bulk, at regular intervals to be specified in regulations and kept under review. However, both approaches are viable and the powers we are taking in legislation would allow us to legislate for either of them. We will explore the options further before deciding which approach to pursue.
- 3.28 While the 'member-specific' approach appears to have the advantage that dormant pots would be transferred on quickly following changes of employment, in practice the frequent cash exchanges between schemes and the administrative costs associated with transfers may make the process less efficient. There may also be issues for those people who move jobs comparatively frequently and who may be quite likely to end up rejoining schemes in which they were previously active members.
- 3.29 A periodic approach would achieve the desired consolidation of pots, while helping to keep down the costs to schemes and members. We are discussing with providers how a bulk transfer process might best work and how frequently the process should operate.

¹⁷ Impact assessment – (<http://www.dwp.gov.uk/consultations/2011/small-pension-pots.shtml>).

Proposal:

We will consider further how best to operate automatic transfers in order to consolidate savings while minimising costs to schemes, employers and members.

The automatic transfers compliance regime

- 3.30 There will be a light touch, proportionate compliance regime for automatic transfers, overseen by The Pensions Regulator (TPR). In addition, there would be a role for the Pensions Ombudsman in dealing with individual complaints brought to their attention on a case-by-case basis.
- 3.31 The approach to regulation would be aligned with TPR's overall regulatory approach for DC pension schemes (currently under consultation), with whistle blowing by individuals and those administering pension schemes being one method of detecting breaches. Details of the requirements and of penalties for breaches would be set out in regulations.
- 3.32 The enforcement regime would be proportionate to the nature of the breaches which might occur and the impact on members of any breach.
- 3.33 TPR would be able to issue compliance notices to schemes and to third-party administrators, and to impose fixed penalties where a person has failed to comply with such a notice or contravened certain automatic transfer requirements (which would be specified in regulations).

Proposal:

TPR would be the main enforcement body for the automatic transfer process. The approach to regulation would be aligned with TPR's overall regulatory approach for DC schemes (currently under consultation) with whistle blowing by individuals and those administering pension schemes being one method of detecting breaches. Details of the requirements and of penalties for breaches would be set out in regulations.

4

Next steps

- 4.1 The legal framework for automatic transfers will be created in the forthcoming Pensions Bill. We will continue to work with key stakeholders and all other interested parties to develop the details of the implementation solution for the automatic transfer process and the legal framework which will support it.
- 4.2 We will prepare draft regulations setting out the details of the automatic transfer requirement. The draft regulations will be the subject of a formal consultation after the Bill has received Royal Assent.
- 4.3 To complement our work on automatic transfers we will continue to work with the industry to streamline member initiated transfers, encouraging schemes to adopt common approaches and accelerate the current process. To facilitate this work, the TPR's proposed new Code of Practice (as outlined in their recent consultation) emphasises the need to make transfers in a prompt manner.



information & publishing solutions

Published by TSO (The Stationery Office)
and available from:

Online

www.tsoshop.co.uk

Mail, telephone fax and email

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries

0870 600 5522

Order through the Parliamentary Hotline

Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Houses of Parliament shop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/general enquiries:

020 7219 3890

Fax orders: 020 7219 3866

Email: shop@parliament.uk

Internet: <http://www.shop.parliament.uk>

TSO@Blackwell and other Accredited Agents

This publication can be accessed online at:

www.gov.uk/dwp#consultations

For more information about this publication,
contact:

Private Pensions Policy and Analysis

Department for Work and Pensions

1st Floor

Caxton House

Tothill Street

London SW1H 9NA

Copies of this publication can be made
available in alternative formats if required.

Department for Work and Pensions

April 2013

www.gov.uk

ISBN 978-0-10-186052-9



9 780101 860529