SuperChoice

SuperChoice Response to DWP's Call for Evidence

Pot for life/ Lifetime Provider

24 January 2024

Content

Executive Summary

SuperChoice is delighted to respond to this latest DWP (Department for Work and Pensions) Consultation and a follow-up to the Response and Call for Evidence in November 2023. This response should be read in conjunction of SuperChoice's original submission 'Ending the proliferation of deferred small pots' 5 September 2023.

SuperChoice supports the DWP goals to reduce the estimated industry costs of c £225m p.a. incurred through the administration of the stock of ‘small pots’ and to lay the foundations for a more efficient and effective pension industry that delivers better outcomes in retirement for members.

As the leading Clearing House and technology solutions provider in the Australian Superannuation market we believe there are several key learnings arising out of the Australian pension system model that the UK can benefit from. This can be neatly summarised as the 4 ‘C’s; namely.

- Contributions
- Consolidation (incl. Stapling)
- Choice
- Confidence

Contributions

Over time, contributions in Australia have increased to a minimum of 11% (the Super Guarantee or SG) of ordinary time earnings or salary and are scheduled to rise to 12% on 1st July 2025. At the current contribution levels compared to the UK market, this will deliver larger pots than under current UK requirements. Contribution rates have been increasing consistently in Australia over several years. The significance is that larger contributions drive better retirement outcomes, and fewer pots are easier to manage and plan. Data from Australia shows the average Super account balance at c $90,000*.

Consolidation

The existing stock of ‘small pots’ in the UK (positioned as less than £1000 value) will be tackled through the default consolidator model. Australia had a similar initiative called “Inactive Small Accounts.”

Reducing the future ‘flow’ of pots (small and others) could be addressed by the introduction of both member active choice and a default option similar to that of the Australian Stapling initiative. Initiatives such as SuperMatch from the Australian Tax Office (ATO) have resulted in 13 million duplicate accounts being closed or consolidated since 2015.

Subsequent evolution led to legislation known as the Your Super Your Future reforms introduced in 2021 and resulted in what is known as ‘Stapling’ which is designed to reduce the flow of new small pots by ensuring employees can reuse their existing pots when they move to a new employer even if they do not make an active choice.

An overview to the high-level timeframe of Australian legislative initiatives to combat multiple pots has been illustrated in the diagram below.

Australian consolidation initiatives Timeline

Business Snapshot

53%
Marketshare of Australian market Clearing House volumes

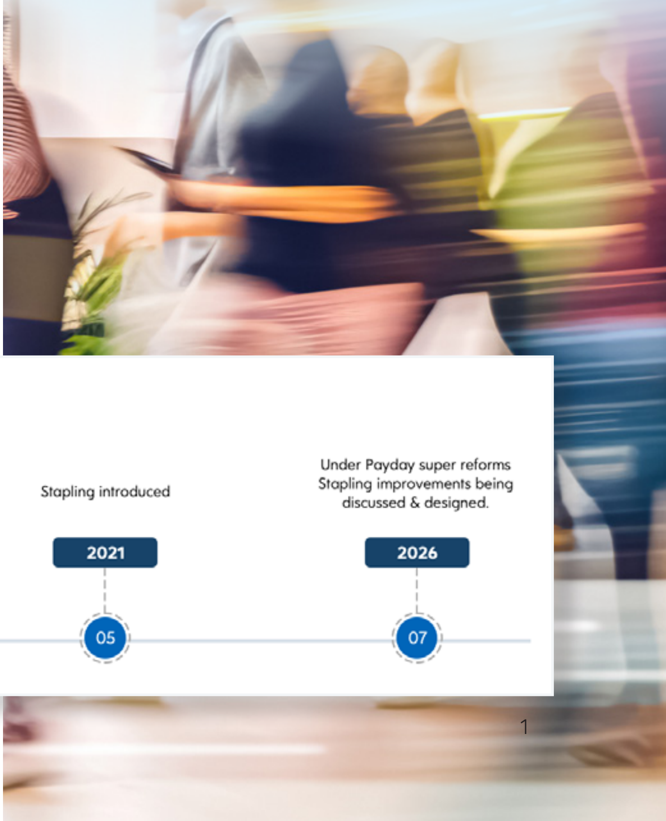
150 Million
transactions processed last year

£26 Billion
payments distributed last year

35
Pension Fund clients

8 Million
Employees supported through our system

10+ Years
servicing the UK pension market



From the inception of SuperMatch the Australian Industry has achieved greater consolidation as the figures below reveal. In the past 4 years, the number of people with 1 pot has increased from 65% to 76%.

Number of super accounts held by individuals, 2019 to 2022

Number of super accounts	2019	2020	2021	2022
1	65%	74%	75%	76%
2	23%	20%	19%	18%
3	7%	5%	4%	4%
4 or more accounts	4%	2%	2%	1%
Individuals with 1 or 2 super accounts	88%	94%	94%	95%
Individuals with 3 or more super accounts	11%	7%	6%	5%

Source: ATO Research and Stats

This consolidation activity has been occurring over several years with the number of account closures through consolidation expressed in the following table:

Sourced from the APRA (Australian Pension Regulatory Authority) annual statistics to June 2023, this table shows that the number of consolidations has, on average, been growing over the past five years.

Financial Year	No. of account consolidations
2019	72,968
2020	60,609
2021	103,776
2022	44,279
2023	118,475

Finally, even with many initiatives designed to broaden the coverage of Superannuation across more workers (e.g. removing the superannuation threshold which was previously $450 per month [1] – the total number of superannuation accounts continues to decline. From June 2017 through to June 2023 the number of accounts in the Australian Superannuation market fell from 25,475,659 to 22,252,129 (or 12%) while in the same period the total assets under management (AUM) rose from $1,329 Trillion to $2,372 Trillion and the average account balance grew from c $52,000 to c $90,000.

Choice

Member Choice was introduced to the Australian System in 2005. This enabled employees to direct their employer to send the mandated pension contributions to the employees chosen fund or 'pot.'

The overall philosophy of 'Choice' caters for the engaged population segment often in a segment that understands Pensions and has a preference as to where to invest their savings. Introducing choice drives greater engagement over time as members take more interest in their retirement savings (especially as their pot size grows) and also motivates the industry to enhance education on the benefits of the pension scheme to attract and retain members

It forms a key part of enhancing engagement with Pensions as it gives employees a sense of ownership of their retirement savings.

Employees exercising active choice averages 43% over last 5 years, with c 57% joining the Employers default scheme.

The infrastructure introduced to support Choice (i.e. Clearing Houses and Data Gateways) i.e. the ability for Pots to be routed to any fund to support Choice has been leveraged by more recent initiatives (e.g. consolidation including stapling) and provides market connectivity that can be further utilised for future initiatives.

1 https://www.ato.gov.au/businesses-and-organisations/super-for-employers/work-out-if-you-have-to-pay-super

Confidence

Ultimately, any private pensions model will seek to achieve a prominent level of confidence from savers that they can meet their retirement income expectations, or at least appreciate what they may need to do to improve their chances of so doing. Eliminating unnecessary multiple pots, over a sustained period, is more likely to serve as a focal point for long term financial planning and when combined with a suitable regulatory framework and competitive provider market, allow for appropriate net returns and customer protection from scams or poor performance.

Like the emerging UK Value for Money framework, the Australian Pension Regulatory Authority (APRA) provides the My Super Heat Map that builds on the annual performance test for My Super and Choice products. This test assesses investment returns and administration fees. The APRA Heat Map provides a range of metrics so that users can compare the performance of products relative to several benchmarks and over different time horizons.

The heatmaps seek to foster a focus on continuous improvement across the superannuation industry by providing clear, credible, and useful insights into the outcomes delivered for customers, and compliments the right for Australian employees to exercise their right to choose another fund if they are dissatisfied with the performance of the incumbent.

It has been our observation that in recent UK industry discussion, a key concern raised by some participants is that members may be put into poorly performing funds. Initiatives such as the My Super Heat Maps in Australia provide extremely strict performance requirements with outcomes for poorly performing funds ranging from not being able to accept new pots through to not being able to receive contributions. This can ultimately lead to these poorly performing funds having to seek a merger opportunity into a strongly performing fund.

These four guiding themes have been adopted in Australia over the last 20 years since Member Choice was introduced in 2005.

Segmentation of workers

Not all workers are the same – hence initiatives such as Pot for Life and Small Pot Consolidation should be considered in the broader context of the pension industry. The diagram below illustrates the various Pension frameworks that are in place in Australia (with reference to UK equivalents)

SuperChoice has noted some of the market commentary currently circulating in the UK and feels that providing this overview will help provide some clarity to the Australian frameworks and the different segments of workers that it focusses (not exclusively) on.

For example, terms such as “Choice” and “Stapling” have the risk of being bundled together or confused where in-fact they are quite separate (and in some regards completely opposite to each other).

Worker Segments

New to work	Disengaged	Engaged	Sophisticated
Default	Stapling/Pot4Life	Choice	SMSF/SIPP

Default

A Default arrangement is similar in concept to the UK Workplace market. Default products exist to provide guard-rails to product features and costs. While default products can be purchased directly by consumers a key distribution channel is via the employer who will offer a Default product to employees (i.e. UK Auto Enrolment) and is a consideration for the employee when joining that employer. In Australia, an employee can always move into that default fund later in their employment.

Default products serve well for those employees that currently do not have a pension pot and those employees that do not want to elect another fund.

Stapling/Pot for Life

Stapling is a relatively new Australian initiative (launched in 2021). As described in SuperChoice’s original DWP (Department for Work and Pensions) submission in September 2023 on ending the proliferation of small pots, while the intent of Stapling is well regarded, the initial rollout / implementation of the initiative has left room for improvement. The Australian government recognises this and is currently undertaking industry engagement for a revised approach to Stapling which is currently planned for implementation in 2026.

Choice

Member Choice was introduced to the Australian System in 2005. This enabled employees to ask Employers to send the mandated pension contributions to their own preferred fund or pot.

The overall philosophy of ‘Choice’ caters for the engaged population segment, typically a group that understands Pensions and has a preference as to where to invest their savings.

It forms a key part of enhancing engagement with Pensions as it gives savers a sense of ownership to their retirement savings.

Over time SuperChoice has seen an increase in potholders making active choice, they might for example value a particular Fund due to benefits such as Insurance offered whilst keeping a SIPP style account / pension going for their longer-term investment goals.

Over the past 5 years Active Choice is c 43% , with c 57% joining the Employers default scheme.

The following are key benefits of implementing a 'Member Choice' based model:

- Encouraging a focus on the Pensions Savings Pot for the individual
- Recognition that overall, Choice for pensions is a net positive for, consumers and industry innovation and efficiency, when supported by appropriate regulatory oversight
- Taking cost out of the industry by reducing the stock of small unprofitable pots
- Positions the landscape for better quality, more accessible, advice and guidance for long-term financial and retirement planning.
- Simplifies the technology and administration across the industry by introducing (via small pots default consolidation first) a UK Pensions Industry Clearing House to manage data and the secure payment of employer and individual contributions – the Australian SuperStream standards set is an example
- Maintains the option for Employers to differentiate their total benefits package to their target employees with strong in-house schemes and other benefit offers such as Life Assurance
- Encourages product and service innovation from for example Pen Tech's and digital first providers

SMSF/SIPP

Generally reserved for higher balance pots and sophisticated investors, the UK and Australian markets both accommodate for that segment that desire tailored investment outcomes. This segment of workers traditionally are advised and have a wide range of products and asset types invested. This segment is highly engaged.

The UK's desire to enhance the Pension market and go beyond the announced Small Pot Initiative that will deliver a long-term vision for workplace pension savings is applauded by SuperChoice. Such a vision should focus on removing friction points in the system, improve member engagement and ultimately improve member retirement outcomes. This will be a journey. However, templates exists in other Pension markets such as Australia that the UK can look towards for example in legislation and regulatory oversight approach, business process, administration service architecture (e.g. the introduction of infrastructure such as Clearing Houses) and underpinning, enabling technology.

Question 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?

The key consideration of implementing a Lifetime Provider model is to truly implement a member centric retirement savings model that focusses on improving outcomes for retirement.

The approach to implementing a Lifetime Provider model needs to be considered and fundamentally a key question that needs to be answered is should the UK market build the capability required or implement proven market leading capability in the UK market.

Markets such as Australia have evolved via the Clearing House model. The UK can take advantage of ready-made components that are proven and available today.

The development of clearing house capability is one that takes multiple years. Even for an organisation such as SuperChoice who has had many years' experiences in developing clearing house technology and capability, the process of developing our latest generation technology was a 5+ year programme.

Therefore, for an organisation without such domain expertise, it is fair to predict that the timeframe would be significantly longer. In addition to the initial build, the clearing house function needs to adapt and change with ever changing legislative guidelines and objectives. SuperChoice invests millions of £ p.a. into the ongoing development, delivery, and operation of the clearing house.

With the many compatibilities in the evolution of the Australian and UK retirement savings markets, organisations such as SuperChoice can adapt and localise its clearing house capability at a fraction of the cost and time it would otherwise take to design and build from scratch. This would also allow the UK market to implement incremental change quickly and develop a world leading retirement savings infrastructure.

Another key consideration is with regards to the time it take to implement a Lifetime Provider model. It is clear that the current issue with small pots is an immediate issue that needs to be addressed.

The current DWP industry 'Call for Evidence' and some of the questions raised has many parallels to the Australian market and commentary that was provided by the Australian Productivity Commission Superannuation Assessing Efficiency and Competitiveness Report that was issued in December 2018. [2]

While each market has its nuances, and no two markets are the same, SuperChoice believes that much of the commentary in this report holds true to the models being considered to improve the UK auto-enrolment pension market. The following excerpts (on page 16) provide valid commentary. The amounts have been redacted from the original report as the specific amounts referenced in this report will vary to that in the UK.

"These unintended multiples collectively cost the members who hold them $----- billion a year in excess insurance premiums and $--- million in excess administration fees. Over time, the foregone returns compound to unnecessarily erode their retirement balances, and can leave a typical full-time worker 6 per cent (or $---) worse off at retirement"

"Even worse, the effects are regressive, affecting younger and lower-income members the most."

"It is an avoidable system failure that has hurt members since the inception of compulsory super."

What elements need to be in place?

The UK already has many aspects in place, such as a mature pension industry with strong industry governance.

The Pensions Dashboard Programme (PDP), whilst still in development, represents the laudable goal of enabling people's pensions to be seen together in one place, and this should support the broader understanding of pensions and stimulate interest in increased contributions, consolidation, and drive consumer confidence. Elements of the service, such as the Pension Finder Service (PFS), could potentially be reused in support of small pots consolidation and, subsequently, a Pot for Life or Stapling-like service. In Australia, the SuperMatch service was launched in 2015 to deliver an independent, government-backed consolidation service using infrastructure from the ATO and supported by Clearing Houses.

Details on the SuperMatch Service can be found at the link below;

SuperMatch | Australian Taxation Office (ato.gov.au)

While the pensions dashboard is not complete, the establishment of the data standards (via the work of for example, PASA (Pensions Administration Standards Association) and the technical messaging standards driven by the PDP (Pension Dashboard Programme) plus the technical components such as the Pension Finder Service (PFS) and associated identification and verification

2 Source: https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report

and security standards are all valuable assets that could be potential accelerators to the delivery of the Clearing House and 'Hub and spoke ' architecture that will simplify the data and contributions movement.

SuperChoice will leave other respondents to comment on specific policy matters and other elements of that nature.

From a technology perspective, the establishment of clearing houses and data gateways is a key element in enabling market-wide connectivity.

Key functions of a clearing house:

A superannuation clearing house provides a range of business processes to simplify superannuation payments for employers. These typically include:

- **Consolidated Payments:** The clearing house allows employers to make a single payment, which the clearing house then distributes to each employee's chosen super fund.
- **Payment Processing:** The clearing house processes the payments to the various superannuation funds on behalf of the employer.
- **Compliance Checking:** The clearing house ensures that payments are made in line with superannuation laws and regulations
- **Record Keeping**: The clearing house keeps track of all transactions, providing a clear audit trail for the employer.
- **Reporting:** The clearing house can provide reports detailing all superannuation contributions made on behalf of the employer's employees.
- **Data Validation:** The clearing house can validate the details of super funds, employee data, and contribution amounts to ensure accuracy.
- **Payment Tracking:** Clearing houses typically provide tools to track the status of superannuation payments.
- **Error Resolution**: If issues arise with payment processing, the clearing house can work with super funds to resolve these issues.
- **Employee Choice of Fund**: A clearing house can manage the administrative complexities when employees choose different super funds.
- **Notification Services**: The clearing house can send notifications to employers about payment deadlines, contribution changes, regulatory updates, etc.

Adoption of a clearing house capability provides an ability to expediate the implementation for a range of 'building blocks' for a UK Pension Industry Clearing House including:

- Business Design and Processes
- Technology components repository
- Technology Standards
- Domain expertise

Key benefits of adopting a clearing house model include simplifying the administrative process, saving time, and ensuring compliance with superannuation laws.

Question 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?

This question is understood to ask respondents about new products and decumulation approaches that turn the ‘pot for life ‘into a ‘pension income’ in retirement.

A key benefit to the establishment of clearing house capability in the market is that clearing houses, by nature, need to be able to support a wide range of products that cover DB, hybrid, DC (Defined Contribution), and other vehicles. As product design/ construct is not an area of our core expertise, SuperChoice will leave other respondents to comment on this question in detail

SuperChoice experience in Australia is that our fund customers will have different approaches to members as they approach the draw-down phase, but by default, they will remain in the accumulation stage of their pension until the individual makes a proactive decision to commence drawing down their super.

An individual has a choice to draw down their super as a lump sum, transition their balance to a pension (that has mandatory annual draw-down limits) or a combination of the two. This area is a current point of discussion between industry and government. The government is of the view that super funds could be doing more to support members in the post-retirement / draw-down phase.

We recognise that a secure retirement income does require solutions such as tailored drawdown or a blended guaranteed annuity plus a flexible pension for individuals, or modern style schemes like Collective Defined Contribution (CDC) that can deliver to the individual's needs potentially into a long retirement. However, our position is that the larger the pot that is accumulated by individuals during their full-time working life will drive a stronger foundation in the first instance and that this is a prerequisite.

Question 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?

As mentioned in this response – SuperChoice has seen the Australian model evolve over time where today it provides a comprehensive retirement savings environment that covers a range of worker segments, from the new to work, the disengaged, the engaged and the sophisticated investor.

This is covered via a number of "building blocks" e.g. Inactive, low accounts / small pot consolidation, workplace default arrangements, Stapling / Pot for Life, and member choice.

Overlaying all of this is an active regulatory framework that includes Heat Maps that set clear performance return benchmarks to protect the retirement savings of workers. These heatmaps seek to foster a focus on continuous improvement across the superannuation industry by providing clear, credible, and useful insights into the outcomes delivered for customers.

SuperChoice has focused its response on the technology building blocks and we will leave policy and transitional arrangement to other respondents. Based on our experience in the Australian market there are two key building blocks required:

1. **Data connectivity standard** The Australian market has an umbrella concept 'SuperStream' which provides a data connection standard that covers the overall industry. This ensures that all funds can exchange data between one another. The Australian market implemented this model via centralised "Gateways" in which SuperChoice is a market leader. Funds can however make the decision to not use a Gateway (essentially becoming their own Gateway) if they felt that this was in their member's best interest. The establishment of this building block is critical in the UK as it will ensure that employers and members will be able to route their contributions to their single Lifetime Provider.
2. **Clearing House** Building on the Data connectivity standard is the clearing house capability which provides a range of services from those data standards. This includes the range of features as previously outlined in this document.

From a legislative perspective and our Australian experience, as previously stated, the Australian market did not implement the current framework in one big-bang approach. Still, it has been a series of initiatives that span a decade. The benefit to the UK market is that this timeframe can be compressed by taking not only the good outcomes, technology, and domain knowledge from a market such as Australia but also the learnings on how some initiatives (e.g. Stapling) may be more effectively introduced from the outset.

By breaking up the delivery/rollout of these services, the programme could be seen to deliver value early in an agile-style model and avoid a big bang, long lead time technical build, subsequent testing, and a traditional waterfall-style project. Accepting that there is a journey involved in moving from the existing UK Workplace Pensions model, SuperChoice believes a logical sequence to be considered is as follows:

Phase	Initiative	Comment
1	**Small Pot Consolidation (SPC)**	By starting at SPC, the immediate issue of the number of small pots can be tackled. This will provide an initial clean-up of such accounts and put the market in good stead for further initiatives. Also, from a technology perspective, many of the components required to enable SPC (such as Clearing House and Gateway) will be leveraged in future phases.
2	**Pot for Life (P4L)**	With SPC providing the initial clean-up of the small pot environment, P4L is a logical successor as it will slow the proliferation of small pots being created. P4L introduces the concept of a member routing their pension somewhere other than the employer default, which would serve well for the following phase. P4L will be able to leverage the investments made from SPC.
3	**Choice**	The final phase in providing a comprehensive pension framework. Choice can leverage all of the investments made by the previous phases and essentially expands the use of P4L by allowing a worker to direct their contributions to any pension provider.

Question 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?

SuperChoice is a strong advocate for any industry initiative that is designed to improve the retirement savings for the working population. The advantages are:

For Individual savers

A stronger basis for pension saver engagement for all workers who can be encouraged to understand their lifetime pot, its benefits and the value of invested contributions compounding over potentially 40 or 50 years of work.

Experience of Government backed Pension Wise Guidance in the UK is that individuals with multiple pots struggle to grasp how they plan and implement their retirement savings strategy without expert intervention. A Lifetime Provider would make this easier and instil a sense of 'My Pension' that rarely exists across the market today.

For industry

Reduction of the proliferation of new multiple pots as Employees can maintain a preferred existing pot and still benefit from Employer contributions.

Reduced costs to administer multiple separate pots and associated communications (Est £225m saving p.a. just for small pots)

For UK Plc

The potential rationalisation of funds and increased scale will allow more flexibility in Investment strategy and enable trustees and companies to increase the proportion of assets across illiquid and higher risk / higher growth sectors in line with the Mansion House Reform goals.

For regulation and policy makers

A simplified industry operating model based on a Clearing House (see below) where new services can be delivered over time quickly and safely as learnings are digested and the market evolves an example would be a central consolidation service for multiple pots, not just small pots, as in the example of SuperMatch in Australia.

For competition

Industry consolidation of existing product and scheme providers would likely be accompanied by emerging new entrants, perhaps with a more digital technology-based proposition to the market as a whole and aimed at specific population segments, delivering potential innovation and improved overall service.

The perceived disadvantages

The principal objection SuperChoice is hearing at this time in the UK is that there are multiple industry initiatives taking up bandwidth of all stakeholders such as the Pension Dashboard, Productive Finance, Small Pots consolidation, among others. Some established providers may prefer to see these initiatives implemented before embarking on another major change such as Lifetime Provider.

Our contention is that once the Pensions Industry Vision is formally established and communicated (around member choice, improving engagement and the end goal of improving retirement outcomes) then it would be possible to motivate delivery groups to design and plan implementation of the small pots service and the introduction of Lifetime Provider in parallel, so that this could be introduced as a subsequent service in a reasonable time span, and not 'mothballed' or 'kicked down the road'.

Question 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?

SuperChoice comes back to the commentary provided in Question 1 and the statement by the Australian Productivity Commission report previously referenced which quoted.

> "Even worse, the effects are regressive, affecting younger and lower-income members the most."

Duplicate pots are hurting the retirement outcome for UK workers by having their balances eroded via suboptimal multiple fees and charges among other factors. SuperChoice does not believe that it is our position to specify a timeframe, but it is clear via our industry engagement that work needs to be done to bring the market along on this journey – this however needs to be balanced with the ambition to improve pension engagement and outcomes.

The UK can benefit from the vast learnings, advancements, and capabilities from markets such as Australia. Not to replicate those models exactly but to leverage the best parts and improve the UK model so that it is truly a world leading pension market.

The technology and expertise is all available to the UK market to take advantage of today therefore there are no known reasons why such initiatives cannot be commenced in the near-term.

SuperChoice welcomes the opportunity to discuss this response overall and contribute to further discussion on the way forward with DWP (Department for Work and Pensions) and other key stakeholders. We remain excited about the UK market announcements and initiatives such as Small Pot Consolidation, as a first step to delivering a long-term vision for workplace pension savings.

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