

SuperChoice Response to DWP's Consultation

Ending the proliferation of deferred small pots

5 September 2023

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Introduction

SuperChoice is pleased to submit a response to the DWP Consultation dated 11th July 2023, 'Ending the Proliferation of Deferred Small Pots' consultation proposal.

The DWP has identified the following key benefits of small pot consolidation:

- **Improved value for money (VFM) outcomes for members**
- **Enhanced engagement of members on their retirement savings and income journey**
- **A more competitive, sustainable, and efficient workplace pensions market for providers**

In this response, SuperChoice has confirmed its view that implementing a Multiple Default Consolidator Model as an initial step, followed by introducing a member-centric workplace model, will support the fulfilment of all the DWP's stated objectives in its consultation proposal.

SuperChoice has responded to the specific proposals and questions raised in the consultation proposal and provides a recommended, practical delivery path to realising the positive objectives of the initiative, namely, to reduce the fees to members of workplace pensions and to improve the outcomes for current and future retirement savers.

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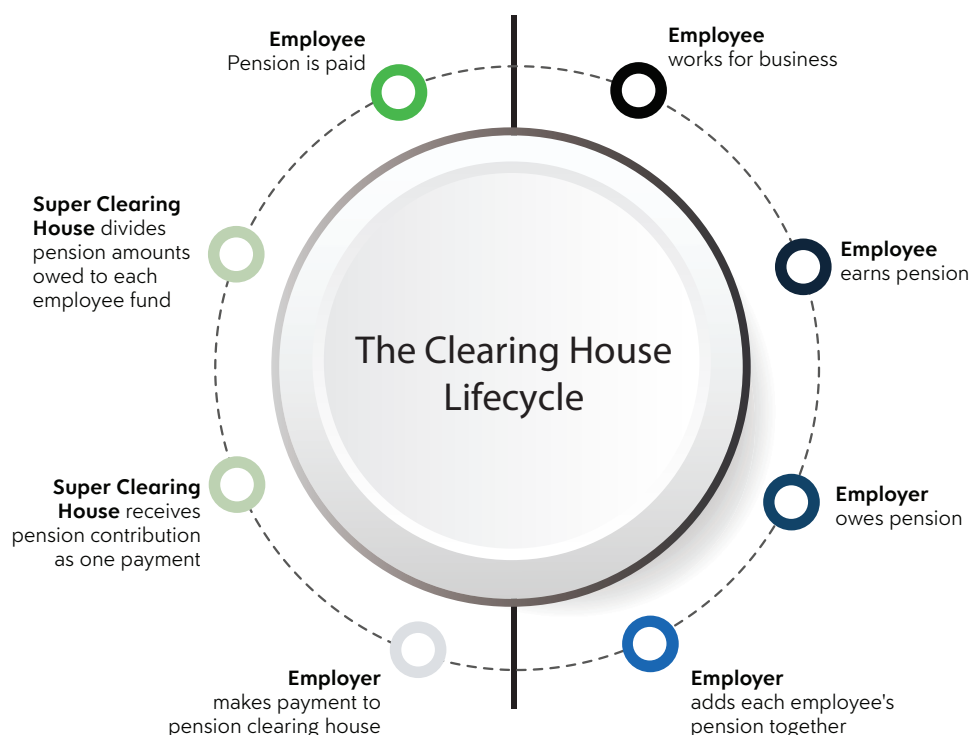
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Executive Summary

SuperChoice Experience and Credentials

SuperChoice is a leading fintech and clearing house providing digital services and solutions to the Workplace Superannuation industry in Australia for over 25 years and, since 2013, expanded into the UK Pension market. The Australian market operates under a clearing house model that supports the mandatory superannuation system; and is a crucial component to supporting member choice. Clearing houses offer compliance and increased efficiencies for employer administration as well as the secure payments of contributions, transfers/rollovers and duplicate or multiple pensions consolidation.

SuperChoice provides a Workplace Pension Solution to the UK market with its digital platform that delivers provider differentiation with employers, and Auto-enrollment compliance. It provides a low-cost, efficient and effective front end for employers to ensure their employees are securely and accurately set up with their pensions.



Business Snapshot

50%

Marketshare of Australian market clearing house volumes

150 Million

transactions processed last year

\$40 Billion

payments distributed last year

35

Pension Fund clients

8 Million

Employees supported through our system

SuperChoice Objectives

Our Vision for Auto Enrolment & Workplace Pensions in the UK

Whilst Auto Enrolment in the UK has seen a significant success in the ten years since its launch, the challenge of multiple deferred small DC pots and low member engagement remains an anchor to future progress. The demise of defined benefit pensions means, in future, retirement savers will need larger workplace pension pots to add to the state pension and other savings for an adequate or comfortable retirement income.

Multiple small 'deferred' pots are both inefficient for the industry, and ineffective and costly for members as they are eroded by fees.

Fewer, larger pots represent a desirable outcome for all stakeholders, including the Government.

Default consolidation of inactive smaller pots is a positive solution to eliminating multiple smaller holdings and a springboard to engage savers in future retirement planning and serve to fulfil the Value for Money (VFM) framework objectives for Workplace Pensions.

SuperChoice view, based on experience in Australia, that the 'multiple default consolidator' model is both deliverable and a desirable and comprehensive initial step towards a transformed AE and Workplace DC market in the UK. A move towards a more open market allowing funds to compete and innovate is possible under the multiple consolidator model.

Beyond the implementation of a default consolidator solution, SuperChoice's experience is that the later introduction of member choice, or 'Pot follows Member' where new joiners can choose which scheme they want their employer's pension contributions to be sent or simply continue contributing to a scheme already in place. This will result in a subsequent step change reduction in the future flow of small deferred pots, and provide the catalyst for far more significant and earlier engagement in retirement savings, and post full-time work, income provision.

Building on the proposals in the DWP Consultation

SuperChoice interprets the DWP proposals as a phased approach to reducing both the 'stock' and 'flow' of small, deferred pots.

The proposal for multiple default consolidators, subject to an authorisation and regulatory regime, is rational and based on our experience in other mature and sizeable markets such as Australia, one that is both deliverable in the medium term and a foundation for full member choice and 'Pot follows Member' as well as other innovations at a later stage.

In contrast to other essential programmes such as UK Pensions Dashboards, SuperChoice is confident that proven 'building blocks' can be utilised as part of the phased and sequenced delivery programme that will accelerate implementation and reduce risk.

Establish
Infrastructure

Create central
registry

Create trusted
network of
providers

Establish
technology
and regulatory
frameworks

Create default
consolidation
capability

Horizon 1

Expand
optional
capability

Integration
with Pensions
Dashboard

Enable active
consolidation

Member choice /
Pot follows
Member

Horizon 2

These building blocks and artefacts include:

- Proven software components to facilitate efficient bulk pension transfers
- Central registry that supports a pension finder service to identify member pots, providers and values
- Digital payment standards, technologies, and processes to ensure the safe, secure movement of monies from ceding schemes to consolidators
- Blueprints for the efficient and predictable procedures for a scale clearing house operation
- Tried and tested employer and member communications strategies to support understanding and obtaining stakeholder 'buy-in' to the programme and the clearing house utility goals

Idea to implementation

SuperChoice proposes bringing both additional ideas (ideally if invited via the proposed 'Delivery Group') and proven implementation assets, knowledge, and delivery expertise - drawing on experience obtained in Australia over the past 25 years and feeding into the specifics of the UK market and further emerging innovation opportunities.

The opportunity is for the DWP, and key industry stakeholders, to fast-track the Multiple Default Consolidator Model's initial implementation while also building the processes and core infrastructure to support future phases to ensure Auto Enrolment and Workplace evolve to meet the needs of individuals deserving a comfortable retirement income.

Benefits Summary

Members will realise the following benefits by employing artefacts proven to have delivered in a comparable workplace pensions market such as Australia:

- **A faster start to designing a detailed solution**
- **Leveraging a source of relevant experience and innovation for future phases**
- **Lower risk to full solution build and implementation through re-use of current platform solutions offered by SuperChoice as opposed to bespoke build**
- **Reduced cost to deliver the programme through use of existing blueprints for technical standards, testing and governance**
- **Avoidance of the 'scope creep' and potential overcomplication that bespoke public sector design projects are known to suffer**

Recommended Next Steps

SuperChoice views the UK as a Strategic Market and is keen to participate in the broader conversation around Workplace Pensions and AE transformation. We have unique individual and corporate experience that will help DWP, and industry stakeholders refine, design and deliver options for the solution required to end the proliferation of, and consolidate deferred small pots.

We propose a meeting to present and discuss the rationale for our response to the consultation, and we would welcome the opportunity to join the delivery group.

Question 1:

Do you agree with this proposal, or do you believe a central registry would be more effective approach to support the consolidation of deferred small pots, if so how would you design a central registry?

The suitable model for supporting the multiple default consolidator model is what SuperChoice terms a 'hub and spoke' model.

This model combines a central registry's virtues with services that allow delivery via one or more Clearing Houses. It also provides the foundation for future services that will support the broader DWP goals of increased value for money and engagement of members with their pensions and a more efficient and sustainable market for providers.

A central registry is a key component supporting consolidation of deferred small pots.

However, rather than a single/centralised capability to service all aspects of small pot consolidation, SuperChoice believes the best approach is similar to the successful model in markets such as Australia, which follows a hub and spoke concept.

In this implementation, the central registry (e.g., the Tax Office in Australia) determines the facilities that are provided to the market as "enabling services". Government-certified organisations integrate these enabling services to offer the market various capabilities.

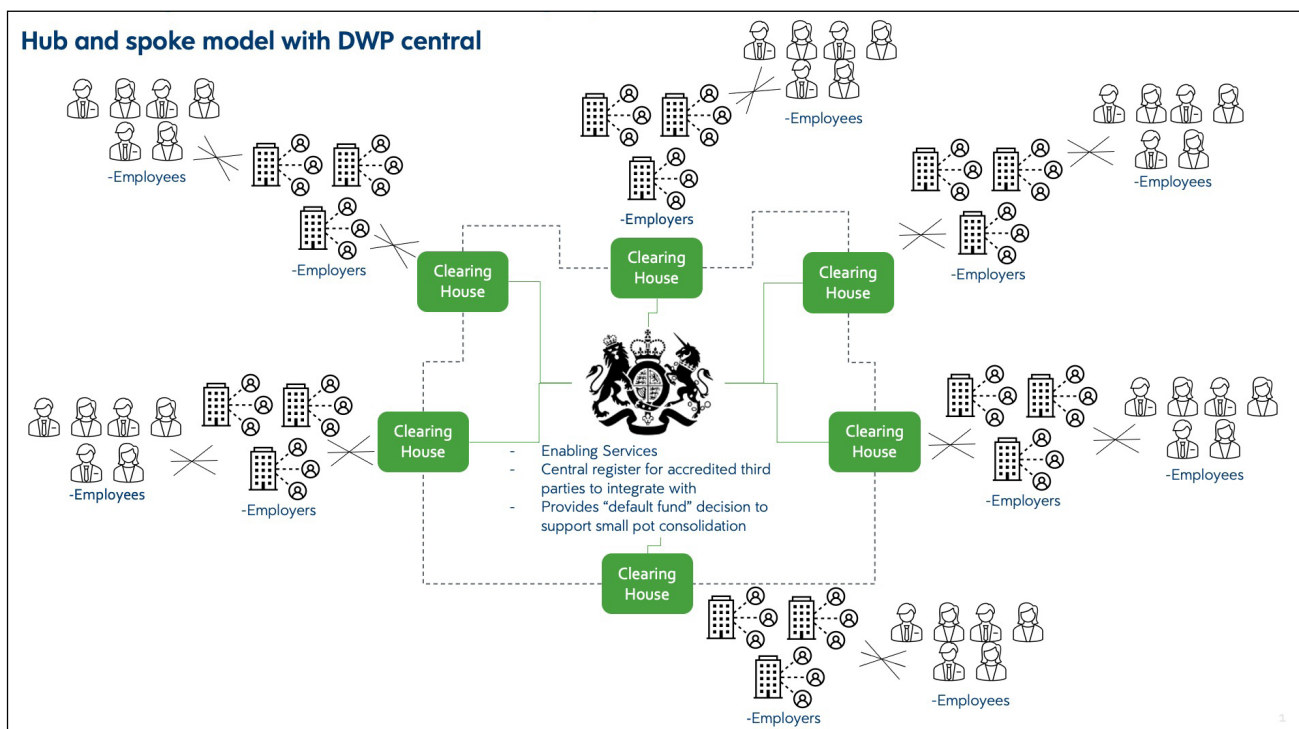
The central registry plays a crucial role in such a model as it provides the following services to the certified third-party organisations:

- **Validation of fund register** – ensuring that consolidation can only occur against open funds and funds that meet the regulators requirements.
- Provides a **source of truth** for critical data elements (i.e., bank accounts) that are recorded against the fund(s), providing a level of protection against fraudulent activities.
- **Reporting frameworks** so that participants provide information that the government requires and also enhance member reporting.
- The Pensions Dashboard Programme, **Pensions Finder Service** could be utilised.
- The **default (active) fund determination** for the member which can be used in consolidation.

The diagram below provides a high-level picture of the hub and spoke concept where the DWP (or other government body) establishes the hub for the consolidation network. This design allows the DWP to focus on developing the enabling services and rules that will govern the network, allowing the establishment of the consolidation capability to be delivered in a cost-effective, timely manner.

Looking beyond the requirement to provide infrastructure to support consolidation of deferred small pots, the central registry can also be extended to further advance the UK pensions market to support initiatives such as member pensions choice or indeed 'Pot follows Member'.

Introducing member choice (and the concept of 'Pot for Life') via the clearing house will provide another avenue for a deferred small pot to be transferred if a member consolidator is not selected. It is possible to combine the Clearing House with a central registry or Pension Finder Service that could be managed by the Clearing House or another trusted third party.



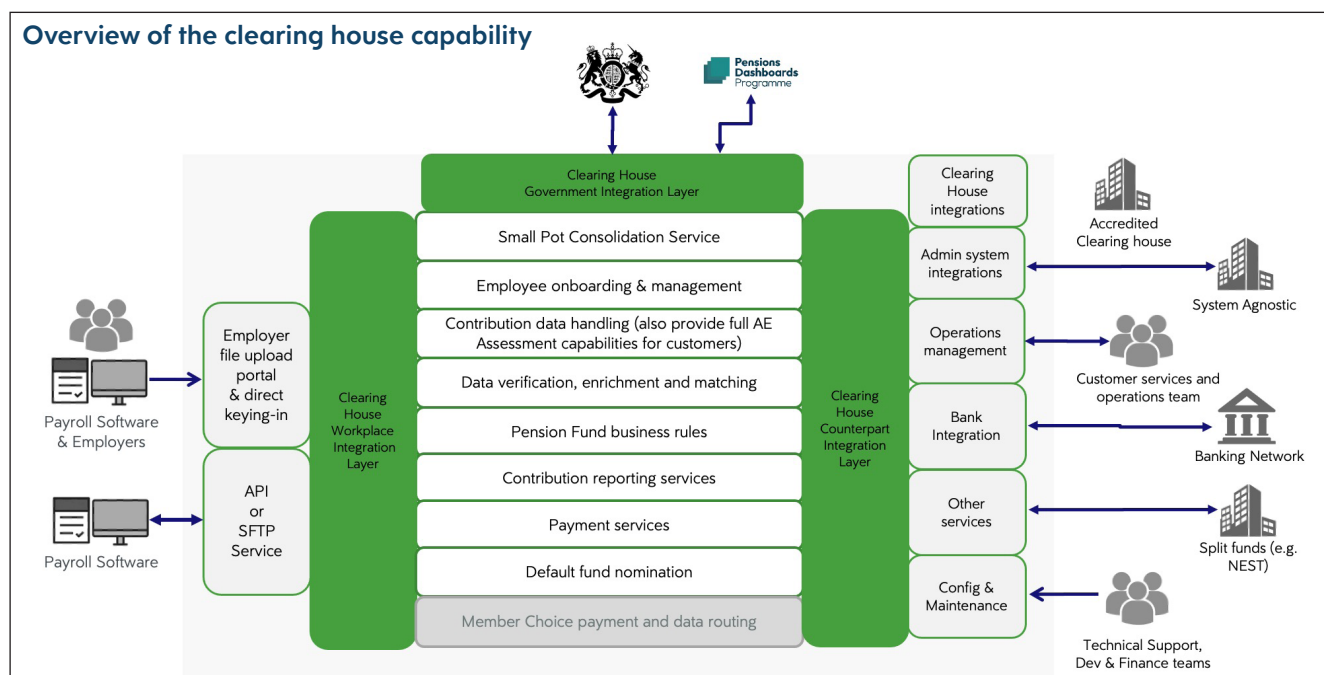
There are many benefits to such a deployment of the hub and spoke approach. A clearing house simplifies the administrative process, saving time and ensuring compliance with superannuation laws. Other benefits include:

- **Time to market:** By leveraging specialist and ready-to-go technology such as SuperChoice, the time to market for such industry initiatives is greatly reduced as the underlying technology is proven, scalable and available today.
- **Reduced risk:** Providers and technologies such as that provided by SuperChoice are proven; therefore, the risk of the technology failing is greatly reduced.
- **Domain expertise:** SuperChoice has over two decades experience working with pension providers, regulators, banks, and other participants.
- **Commercial advantage:** Through all the benefits mentioned above, the UK would be able to take advantage of multi-million dollars of previous investment, which provides commercial benefit through a reduced upfront cost to establish the required network and data standards as well as ongoing maintenance and change.

The hub and spoke approach would allow the DWP (or other entity) to develop and maintain the core rules that would direct the clearing house services. An additional benefit of this model is that it could also be used to expedite and enrich the delivery of the Pensions Dashboard Programme which had initially intended to develop directly to the market (without the concept of an intermediary such as a clearing house (or other)). The experience of the delays in this project highlights the difficulties in a direct central model.

The proposed Hub and Spoke approach could also be leveraged to adapt the data rules and formats of this initiative, further progressing the adoption of those data standards. Longer Term integration with the Pensions Dashboard Programme has strong synergies with the establishment of a consolidation capability as it is feasible for the consolidation to be initiated directly from the dashboard into the future.

This capability is illustrated in the following diagram, which provides further information about the specific functions a clearing house could support.



The greyed-out capability in the diagram illustrates potential future capability that could be enabled under this model but something other than what is needed to be catered for initially.

Under the central registry model described in Question 1, the regulator (or associated body) would receive all pension information (as it is currently designed under the Pensions Dashboard). This would provide a valuable look-up service (in Australia, it is referred to as a Stapled account; similar to 'Pot follows Member' as referred to in the UK) that would direct any default consolidation event to the destination fund where the Pension monies are to be consolidated.

Regarding Data transmission, SuperChoice is tightly integrated into a central registry, the Australian Tax Office (ATO) and other gateway providers, allowing the ATO to provide some central services (e.g., validation of fund details, SuperMatch – e.g., a Pensions Dashboard) * which all other gateways leverage to provide the service. Pension Consolidation (Full Rollovers) is a specific message set allowing Australian account holders to move monies from one (or many accounts) into another. This initiative was launched to curb the issue of account holders being charged excessive fees due to multiple accounts, reducing their retirement savings outcomes. Innovations in this space included many fund providers offering a digital Fund Consolidator service which allowed account holders to be notified of the other pots they may have (even if they were not aware that they had these accounts) and elect, if they chose, to consolidate pots partially or fully.

Question 2:

Which of the options we have set out, do you think is the best approach to allocate a member a default consolidator in cases where a member does not make an active decision? Are there alternatives?

Once the hub and spoke infrastructure model has been implemented, it will be easy for the DWP and the industry to adjust or fine-tune the rules framework for determining how pots are allocated to consolidators.

As a fintech and service provider, SuperChoice focused on designing and delivering the infrastructure to support the model.

Option A and B, as described, may have pros and cons for established industry players regarding their administration requirements. Our belief is that the overriding objective is to aid the retirement savings journey and income for members, and the overall implementation of the model will most influence this.

Over time, as the distribution of pots changes and a proportion of the current stock is consolidated, it might be appropriate to alter the specific rules. We contend that the hub and spoke model, supported by available data standards, integrations, and processes, will enable this flexibility from the architecture out.

However, we have seen learnings from markets such as Australia on improving the impact of initiatives such as 'Stapling' (see diagram). Firstly – the technology capability must be available before the legislative announcements, giving time for third parties such as payroll providers, clearing houses, and pension funds to integrate this capability into the technology eco-systems. Having API enablement from day one is critical.

Under the Australian model, the obligation for stapling is on the employer (to offer it at the time of employment commencement). Having this communicated to employers so that it is well known is also vital – which re-enforces the need to have the technology in place so that they can quickly test and access the service.

Finally, ensuring that the adoption of the obligation is reportable so that regulators can clearly understand whether stapling has indeed been offered.

Process for onboarding new employees

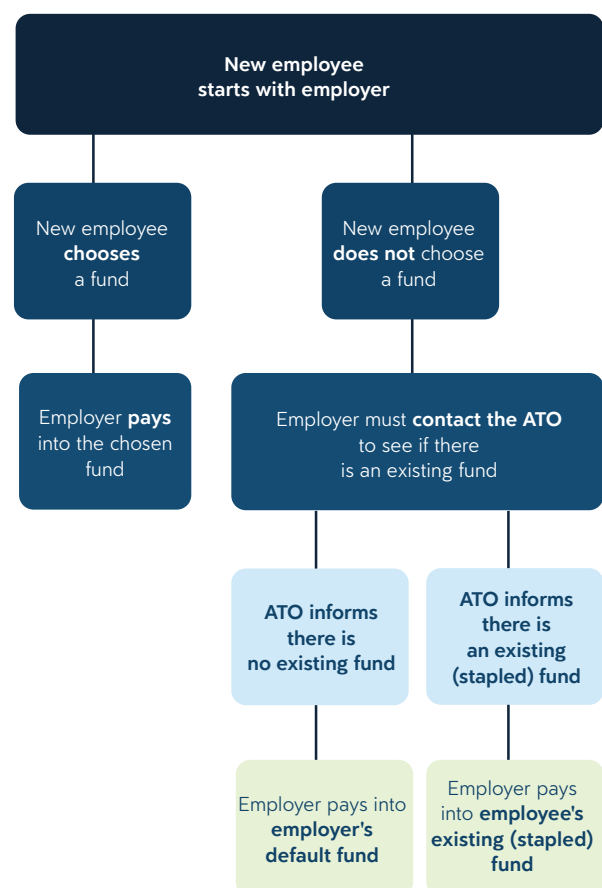


Diagram source:
[Vision Super - Stapling and your new employee onboarding process](#)

Question 3:**Do you agree that there is a need for an authorisation regime for a scheme to act as a consolidator? If so, what essential conditions do you think should form part of the authorisation criteria?**

SuperChoice, as a fintech and Clearing House, is principally focused on designing and delivering the infrastructure to support a Workplace pension industry that is efficient and effective in helping individual members' retirement savings and income journey. It is vital for a robust, ethical, and accountable industry where individuals' retirement savings are nurtured and protected for good and effective governance to be in place and an authorisation regime for key players and providers, including new default consolidators, is required.

With an automatic process for identifying individuals with qualifying small pots, it will be essential to ensure that the consolidators are proven quality organisations with Schemes that seek to achieve the standards for authorised Master Trusts and the emerging Value for Money frameworks covering costs, performance, services, and other criteria.

For consumers to build and maintain trust in the purpose of small pots consolidation, the authorised consolidators need to be overseen and measured against a range of clear criteria with sanctions able to be handed out in the event of failures.

In Australia, the Australian Tax Office (ATO) maintains a table of Super Funds, and using a traffic light system, firms that fail in more than two cycles must merge with a larger fund or wind up their scheme. This could be a valuable model for DWP to include in default consolidators' overall reporting and transparency. A link below is provided to the Australian fund performance comparison site.

<https://kpmg.com/au/en/home/insights/2022/05/superannuation-insights-2022.html>

This model could be implemented in the UK Multiple Default consolidator small pot service.

SuperChoice believes that the authorisation should also extend beyond the scheme and to the authorisation of third parties (such as clearing houses) who will facilitate consolidation.

An example is the GNGB (Gateway Network Governance Body) in Australia, which requires organisations to demonstrate they meet the technical capability and other requirements before they are eligible to connect to the network. This is done by completing interoperability testing with the existing operators, which the GNGB facilitate.

Source: <https://www.gngb.com.au/becoming-gateway-operator/>



Question 4:

Do you agree with setting the initial maximum limit for consolidation at £1,000, with a regular statutory review?

SuperChoice's response is largely focused on the infrastructure and technology design which we believe will provide the DWP with the optimal outcome. Policy design such as consolidation limits is outside of the scope of our response. The design SuperChoice has proposed would allow for rules and limits such as the £1000 to be reviewed and adjusted periodically or as required into the future. The Australian market has similar rules, being:

- no amount has been credited to the account within the last 16 months.
- The account balance is less than \$6,000.
- you have not met a prescribed condition of release.
- The account is not a defined benefit account.
- there is no insurance on the account.
- The account is not held in a self-managed super fund (SMSF) or small Australian Prudential Regulation Authority (APRA) fund.

Reference: <https://www.ato.gov.au/Individuals/Super/Growing-and-keeping-track-of-your-super/Keeping-track-of-your-super/Inactive-low-balance-super-accounts/>

Question 5:

Do you agree with this proposal not to mandate schemes to undertake same scheme consolidation at this current time?

SuperChoice believes that our expertise falls more in the technology and architecture specialisation, which are the key areas in which SuperChoice believes we can add value to the DWP. There will be other respondents closer to this issue whose responses will provide valuable insight. However, we experienced the positive effects strong legislative guidelines can provide the industry (as we have seen in Australia). Leaving the same scheme consolidation to providers assumed to act proactively in members' interest may distort the market and confuse members. Potentially, parallel tracks for consolidation (whether same scheme or not) would increase friction and interpretation as to why pots were or were not consolidated.

As mentioned earlier, the goal of fewer larger pots could be diluted if the Government mandate generally across the industry but leave potentially more prominent providers to determine their approach to multiple pots in their own scheme.

We strongly believe in the fundamental principle that retirement savings frameworks (be it Australian superannuation or UK pensions) are in place to serve the retirement outcomes of their respective members, even when such change can be difficult or inconvenient to adopt.

Question 6:

As a whole, do you agree with the framework set out above for a default consolidator approach? Are there any areas that you think have not been considered, that need to form part of this framework?

Overall, the DWP proposal for a multiple default consolidator system is a decisive recommendation for a problem that has been growing since the inception of auto-enrolment and has been examined by various bodies and working groups on several occasions.

SuperChoice's view is that duplicate and small deferred pots anchor individuals' motivation and incentives to plan adequately for their future retirement savings and income. Without critical mass, other needs, such as deposits for property and regular short- to medium-term savings, will take priority.

There are a couple of ancillary areas that should be explored.

Firstly, whilst it's clear that the consultation proposal advocates building in member choice to a consolidator solution, there seems to be little detail on individual member education and guidance on consolidation's advantages (and potential drawbacks). There are several references to increasing member engagement and the possible future benefits of dashboards; however, SuperChoice suggests additional consideration could be given in the detailed design phase and delivery group to how existing services from Advisers, Employers, Pension Wise, Citizens Advice and others could complement the new service to ensure members' trust, and inform future long-term planning. Much has been hoped for from the Dashboard Project. It would be prudent to thoroughly assess how much the dashboard will complement the overall consolidation architecture and, notably, at what point in the future.

One desirable outcome for any Individual is that they see the consolidated pot as more valuable than the sum of the parts.

Aviva recently unveiled research indicating that there remains a remarkably high proportion of employees who are 'sleepwalking into retirement' (source Aviva Working Lives report June 2023)

A second area SuperChoice believes should be explored in more depth is the cost of transfers and why, despite some exceptions, the process can be extremely lengthy and complex, even for simple money purchase products with no guarantees and specific features.

Question 7:

Do you have any comments on the positive or negative impacts of a default consolidator approach on any protected groups, and how any negative effects could be mitigated?

SuperChoice strongly believes that the benefits to the members (which is why Pension schemes exist) outweigh any concerns from incumbent industry participants. A default consolidation capability WILL provide more substantial retirement outcomes for potholders by reducing fee erosion and improving return outcomes.

Furthermore, one of the key objectives of this DWP initiative is to seek ways to improve member outcomes. SuperChoice's experience is that by making pensions more relevant to individuals and giving them a sense of ownership of their pots, you create an environment where engagement improves as potholders take an interest in their savings. Not to say that this is universal, however. There will always be segments of the working population that are low engaged, but initiatives such as this (starting with default consolidation) could expand into the future to provide further member benefits such as active consolidation, member choice and more.

Our observations are that the UK market is quickly concluding that the status quo is not sustainable (by having millions of small pots) and that this environment is not in the member's best interest. SuperChoice has been encouraged by some recent whitepapers, such as those recently presented by LINK, which have gone to lengths to demonstrate the benefits of such industry advancements.

Reference: <https://kpmg.com/au/en/home/insights/2022/05/superannuation-insights-2022.html>



Conclusion

Ongoing challenge of managing small pots

Auto-Enrolment is an exciting market initiative that has been successful in establishing retirement savings for much of the UK working population. It has created the small pot and duplicate pot challenge for the many workers with transient working environments.

A Pension Consolidation framework is a direction that would allow the UK to "sweep" many of the current 'stock' of small pot accounts (which may include inactive/dormant accounts) and provide immediate benefit. SuperChoice's experience and statistics from the Australian Prudential Regulation Authority (APRA) shows that the challenge of multiple pots is continuous, and the clearing house approach addresses this challenge.

Should the DWP adopt the clearing house model for the Pension Consolidation initiative, then the infrastructure established will position the UK market well to enable Member Pension Choice or 'Pot follows Member' initiatives. Many models can be implemented under such a framework, with the Australian market showcasing the many benefits of not only allowing pension pot portability – which significantly slows future duplicate pots being created but also member engagement and, finally, better retirement outcomes for those engaged.

The clearing house model also opens the UK market up to organisations who must compete on overall Value for Money (VFM), including price, capability, and the introduction of continuous innovation and improvement to the market.

Future State Consolidation Opportunities:

The infrastructure and technology design proposed by SuperChoice would allow the UK market to implement initiatives such as scheme performance benchmarks. The Australian regulator has established performance benchmarks for pension funds to meet. This has been introduced to ensure that funds are returning adequate benefits to their members but has also meant that many pension funds have looked to merge with others to improve the scale of their operation. The Australian initiative is known as the "APRA Heat Map". Suppose a fund failed to meet the performance standards. In that case, their members are contacted to notify them that they are in a poorly performing fund with a consecutive failure, meaning that new contributions cannot be received.

The APRA heat map initiative has had a material impact on the pension fund landscape.

** www.apra.gov.au/superannuation-heatmaps

In summary

SuperChoice sees a pension consolidation function to correct the immediate issue, the proliferation of small pots (Phase 1) and member pension choice and also potentially 'Pot follows Member', as a way of solving the underlying problem (Phase 2)

Establishing a clearing house capability for Pension consolidation will set up the UK Pensions Market to enable member choice in the future.

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.

This is a unique opportunity for the UK pension market to leverage other pension markets (such as Australia) and allow the UK market to implement incremental change quickly and develop a world-leading retirement savings infrastructure that delivers. The objective of ensuring members achieve more value for money from their pensions.

