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Scrutiny Unit
House of Commons
London
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Dear Public Bill Committee,

Pension Schemes [Lords] Bill 2019-21

Established in 2014, PensionBee is an online pension provider offering good value, easy-to-understand pension plans for individual savers. Our product enables savers to quickly and efficiently consolidate multiple pension plans accumulated throughout their lifetime.

Our proprietary technology solution automates key aspects of the consolidation process. PensionBee customers are on average 40 years old, have an average pension size of £20K and >80% live outside of London. We regularly see savers sign up to our service with >15 pension pots.

We welcome this final opportunity to submit written evidence to the Committee. Our interest in this Bill centres around four important interlinked issues; transfers, scams, charges and small pots. Our submission seeks to draw the Committee's attention to interlinkages of these issues.

Clause 25

Under S99(2)(b) of the Pensions Schemes Act 1993 providers have up to six months to release money purchase benefits, or defined contribution pension funds. This is both out of step with what digital technology can allow providers to deliver cost efficiently, but also woefully inadequate for dealing with the realities of auto-enrolment, particularly small pots. One of the main issues around consolidation of small pots is that it can still take months to move a pot away from or into one of the Master Trusts.

The Pensions Policy Institute (PPI) predicts there will be 27M small, deferred auto-enrolment pots by 2035. Our own analysis of ONS data suggests there will already soon be 20M total abandoned pots. This is highly problematic for savers but also auto enrolment providers. PPI data shows the average pension pot size in Master Trust schemes in 2020 is £1,000 yet PPI modelling suggests for a provider to break even on a pot and charge 0.5% AMC then the pot only becomes financially sustainable at £4,000.

Savers and providers urgently need a way to move their small pots efficiently and quickly around the system to a set time scale, like with current accounts or energy switching. To simplify the process for consumers, requests for transfers to standard FCA / TPR regulated investment life funds (which indeed covers all workplace schemes) should be completed in 14 days and where the pot is less than a certain size (for example under £4,000).

This would therefore exclude both large pot and non-standard SIPPs, SSAS and overseas transfers, where we know all the scamming activity takes place.

It would be a relatively simple fix to prescribe a shorter timescale in some circumstances, with those circumstances set out in the same regulations that outline the optimal size of a small pot.

As outlined below:

(4) In section 99 (trustees' duties after exercise of option), in subsection (2) (period in which to carry out what the member requires) —

(a) omit the "and" at the end of paragraph (a);

(b) in paragraph (b), after "money purchase benefits" insert "other than collective money purchase benefits";

(c) at the end of paragraph (b) insert ", and

(c) in the case of an application which relates to money purchase benefits that are collective money purchase benefits, within 6 months beginning with the date of the application or such longer period beginning with that date as may be prescribed."

(d) in the case of an application which relates to money purchase benefits "worth less than a specified amount", within 14 days beginning with the date of the application

Legislation does not yet need to prescribe this exact amount. These circumstances will be laid out in regulations, indeed in S48(3)(a) of the Pension Schemes Act 2015 safeguarded benefits '*worth less than a specified amount*' are outlined as an exception in this way. So, like with Defined Benefit schemes, a clear way forward here is to carve out the same 'exception' approach for Defined Contribution.

The remit of the DWP Small Pots Group (or similar future working groups), can be to decide the optimal value / limit at where consumer detriment is unlikely to occur but yet still offer the required level of financial sustainability for providers to not charge pots out to zero.

FCA and TPR have shared data that pension scam victims lose on average £91,000. We can infer that small pots are not the main focus of scammers, who typically target big pots and older customers who have built up a lifetime of entitlements. Carving out pension pots <£4,000 on a risk basis, still leaves larger pensions that are more likely to be the target of scammers protected. This is similar to the transfer limit on defined benefit pensions, where transfers of <£30,000 do not require advice.

A number of providers, including Nest, could also benefit from this legislative change as consolidation of small pots will make the economics and funding model of auto enrolment more sustainable.

Clause 119 and 121

It is essential that charges are included on the Dashboard. Consumers groups and advocates have argued for their inclusion for many years with little success. In fact, only last week the Pensions Minister announced against including charges on the Annual Benefit Statement.

Currently, savers do not know how much they are paying in charges on their pension pot, workplace or non-workplace. This is despite a 'charge cap' on the workplace side, which effectively no longer exists in the auto-enrolment space.

Crucially, millions of savers in the UK may have pension pots that are being eroded by charges without their knowledge. This undermines all efforts by the government to encourage pension saving and destroys trust in the sector.

Pot erosion usually occurs due to excessive charging in three types of pensions; legacy products (usually pre-2001), small pots in the non-workplace market (as outlined in this FCA data annex) or auto-enrolment, where in fact the charge cap no longer applies and pots are eroded to zero at scale.

The most stinging detriment occurs for those in auto-enrolment schemes, as these are also often low-earners and the very same people that auto-enrolment was created to help bring into the pensions system. Alongside their employer, they are saving into a government-approved workplace scheme in good faith that they will have an income in retirement. Sadly, not only is their pot being eroded, but they have no way of discovering this until it is too late.

Indeed, at PensionBee it is not uncommon for us to try and move across an old workplace pot but find that by the time it transfers, the pot has been entirely extinguished through excessive charges.

We submitted evidence to the Work and Pensions Select Committee regarding small auto enrolment pots. This issue remains unaddressed.

The inclusion of charges on the Dashboard would bring some long overdue scrutiny to some of the deeply anti-consumer charging practices that are still prevalent across the pensions industry.

If you have questions or comments relating to the above, please contact clare@pensionbee.com

Yours sincerely,

Clare Reilly

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