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Small Pots: a pathway to consolidation

PMI's response

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Executive summary

The Pensions Management Institute (PMI) supports the objective of reducing the proliferation of small, deferred defined contribution (DC) pension pots. Consolidation should make pension saving simpler, reduce avoidable administration and help members achieve good outcomes. It should not become an end in itself, nor should administrative convenience override valuable rights or informed member choice.

Our central recommendation is to build a proportionate, deliverable system around existing standards and infrastructure. The framework should align with value for money (VFM), scale, pensions dashboards and guided retirement reforms, with equivalent protections across trust-based and contract-based provision.

- Use charge-capped DC default funds as a pragmatic starting point, but clarify hybrid and additional voluntary contribution (AVC) arrangements and set a route for addressing legacy and actively selected pots.
- Support a 12-month dormancy period and a minimum 30-day notice period, subject to safeguards for temporary contribution breaks, poor contact data and members needing additional support.
- Protect guarantees and pension access rights through clear rules, reliable records and demonstrable preservation of benefits.
- Maintain one consolidating pot per member within each consolidator, and direct subsequent eligible pots to the existing destination unless the member chooses otherwise.
- Provisionally favour alignment with scale including a transition pathway over a higher bespoke threshold. Assess operational capability and market viability as well as asset size.
- Reuse proven electronic transfer standards and legal frameworks; make additional employer duties proportionate and avoid duplicating data collection.

1. Overall approach and regulatory consistency

The PMI welcomes automatic consolidation where it demonstrably improves, or at least protects, member outcomes. A successful regime should reduce fragmentation and make it easier for members, trustees, providers and administrators to do the right thing. The test should be better outcomes after charges and transfer costs, supported by reliable administration - not simply fewer pots or larger schemes.

DWP, The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) should use consistent definitions, evidence requirements and supervisory expectations across the small pots, VFM, scale and guided retirement frameworks. Equivalent trust-based and contract-based arrangements should not face materially different protections or opportunities solely because of their legal structure.

Cross-regulatory transfers should be workable without creating regulatory arbitrage. Government should explain which body is accountable at each stage, how complaints and remediation will be handled, and how equivalent standards will be enforced. Regulatory boundaries should not prevent a beneficial transfer, but nor should a transfer weaken member protection.

2. Scope, eligibility and the value threshold

Charge-capped defaults and excluded arrangements

PMI supports limiting the first phase to DC charge-capped default funds. However, the regulations must define eligibility at the level of the member's DC pot, not solely by the classification of the scheme. For example, the scope must expressly address DC components within hybrid arrangements.

PMI accepts a phased introduction, but does not support permanent exclusion solely because a pot falls outside automatic enrolment. DWP should publish the reasons for each initial exclusion, assess the volume and value of pots left outside the regime, and set a timetable for reviewing those exclusions.

Hybrid schemes and DC top-ups or AVCs

DC top-ups and AVCs within hybrid schemes should be eligible where they meet the same tests as a standalone DC pot and can be transferred without affecting linked benefits. Automatic enrolment into a DC component should not fall outside the regime merely because the wider scheme also provides defined benefits.

That said, a DC component should be excluded from automatic transfer where separation would reduce associated defined benefit rights, remove a retirement option or lose a scheme-specific protection. DWP should provide worked examples covering separable AVCs, linked benefits and members who remain active in the defined benefit section. The examples must state which contributions count towards the dormancy test and which benefits count towards the value threshold.

For hybrid schemes, automatic consolidation should not leave a member worse off by splitting benefits that are currently provided together. In particular, in the majority of cases it would not be helpful for a member to have their small DC pot automatically transferred away while their DB benefits remain in the hybrid scheme, leaving them with two pension providers where they previously had one. This would increase, rather than reduce, fragmentation.

Legacy pots and active investment choice

PMI does not support leaving legacy small pots outside the policy indefinitely. DWP should publish a timetable for reviewing their inclusion and ensure that members can use a straightforward voluntary transfer route in the meantime, subject to protection of valuable rights. The first phase should be described as a starting point, not a solution to the entire stock of small pots.

An explicit choice of the scheme's standard default fund should not, by itself, disqualify a pot from consolidation. The relevant distinction is between a standard default investment and a deliberately selected alternative strategy. DWP should define that distinction in the regulations. Religious, ethical and other specialist investment choices should not be overridden through automatic consolidation.

The £1,000 threshold and inflation

PMI accepts £1,000 as the initial threshold, but does not support leaving it fixed indefinitely. DWP should commit to a published review mechanism that considers inflation, transfer costs and market capacity. The rules must specify the valuation date,

whether eligibility is reassessed before payment and how market movements or transfer delays affect eligibility. Members should remain able to consolidate voluntarily above the automatic-transfer threshold.

Dormancy

Yes. PMI supports a 12-month dormancy period. A pot should not, however, transfer automatically where the scheme has reliable information that contributions are temporarily suspended and expected to resume. DWP should specify how parental leave, career breaks and irregular contribution patterns are identified and recorded.

The ceding scheme should recheck dormancy before transfer. The operating rules must state who receives late contributions, how they are reconciled and how the member is informed. They should prevent late payments from being lost or repeatedly generating new small pots. DWP should review the 12-month test against evidence of avoidable transfers after launch.

3. Guarantees, protected pension ages and exemptions

PMI supports excluding a pot from automatic consolidation where transfer would remove a valuable guarantee, protection or associated benefit. The default must be preservation of the right, not an assumption that a small balance makes it insignificant.

Our proposed position is that a pot carrying a GAR or another material guarantee must be excluded from automatic consolidation if the right would be lost on transfer. Protected tax-free cash, survivor benefits and other valuable scheme-specific rights should receive the same treatment. DWP should publish a common classification of protected rights. Where records are incomplete, the transfer should pause until the position is established.

Trustees and scheme managers should have discretion only within clear regulatory guidance. A decision to transfer a pot with a guarantee must identify the right, assess the effect of losing it and record why transfer is in the member's interests. Pot size alone is not a sufficient justification. DWP should specify which rights require exclusion and which permit a documented discretionary assessment.

Protected pension ages

No. A PPA should not automatically exclude a pot if the receiving consolidator can preserve and administer that member's exact right. The ceding scheme must confirm preservation before transfer and supply the information needed to maintain it. A general statement that a consolidator supports PPAs is not sufficient.

Discretionary exemption should remain available where the member's PPA cannot be preserved or where another identified detriment makes transfer inappropriate. DWP should explain what additional purpose the discretion serves where preservation is guaranteed. Guidance must distinguish different protected ages and conditions, including a member's expected ability to access benefits at age 56.

The broader policy on pension access ages should be considered alongside this regime. Where different access rights require separate records, a single member account may need protected sub-records. Operational simplicity must not extinguish legal rights or unintentionally restrict retirement choices. Although Government should

recognise that with the expected increases in NMPA as SPA changes there will be significant additional operational complexity loaded onto DC schemes and Government may wish to consider whether ongoing protection is appropriate and proportionate.

Member elections in exempt cases

Yes. Members should be able to opt out of an eligible consolidation or request transfer of a pot subject to a discretionary exemption. An opt-in must not override a legal prohibition, waive an advice requirement or be taken as consent to an unexplained loss of benefits. The notice must identify the right at risk and explain the consequence of transfer.

4. Member choice, communications and subsequent pots

The default journey should be simple, but it must preserve meaningful choice. Members should be able to retain their existing pot or choose another eligible consolidator without disproportionate friction. The system should not imply that all pension savings must be held in one place: some members may deliberately prefer diversification across providers or investment approaches.

Yes. PMI supports a minimum 30-day notice period, provided the member receives a clear notice and can opt out or choose another consolidator without unnecessary steps. The transfer must pause where delivery has failed, rights are disputed or the member needs additional support to act. DWP should define when the notice period begins and how these exceptions are resolved. No response should trigger the statutory default process; it should not be described as informed consent.

DWP should require a standard transfer notice with a common set of information: the pot and value, proposed consolidator, reason for transfer, charges, relevant VFM rating, treatment of guarantees and protections, available choices, response deadline and effect of taking no action. The completion notice should confirm the amount received, receiving account and rights preserved. Ratings must be explained, with a clear statement that they do not guarantee future returns.

The process should feel as straightforward and traceable as a well-designed passport renewal: one clear journey, confirmation of receipt, status updates and a clear route for correcting problems. This is a service-design benchmark, not a suggestion to duplicate passport identity checks. Good electronic transfer practice should be reused, with non-digital alternatives for those who need them.

Ceding and receiving schemes must keep an auditable record of the notice, delivery attempts, member election, destination and any exemption decision. The rules must state whether an opt-out applies to one pot or future consolidation cycles, how it is communicated between schemes and how a member changes it. A recorded opt-out must not be ignored simply because a new allocation cycle begins.

Subsequent pots and changing consolidator

PMI supports sending subsequent eligible pots to the member's existing consolidator by default. Members should be able to change that destination. Where they do, the process should offer transfer of the existing consolidating account to the new consolidator as part of the same journey, subject to preservation of rights. Changing the

destination for future pots should not, by itself, authorise movement of existing savings.

Members should be able to retain an existing account if they wish. Communications must distinguish changing the destination for future receipts from transferring the existing balance. DWP should assess a nominated-consolidator indicator alongside pensions dashboards so members can identify their destination and request a change.

3. Consolidator standards, scale and charges

Consolidators should meet strong, continuing requirements for governance, administration, investment oversight, financial sustainability, communications, operational resilience and retirement support. In the trust-based market, authorised master trust status should be the foundation. Equivalent standards should apply to eligible contract-based consolidators through the FCA framework, rather than treating master trust authorisation as the only route across both markets.

Authorisation must assess the consolidator's ability to accept all eligible allocated pots without selecting only profitable members. The assessment should require evidence of transfer-processing capacity, funding, cyber resilience, administration standards, preservation of protected rights and arrangements for correcting member losses. Meeting an asset threshold should not substitute for passing these operational tests.

A single consolidator arrangement

DWP should rewrite the "single consolidator arrangement" requirement to state precisely what must be single: the designated receiving arrangement, the investment strategy or the member's account. These are different concepts. The final guidance should show how an incoming pot is treated when the member already has a workplace pot with that scheme and whether those balances must merge.

PMI supports a designated receiving structure and one consolidating account per member. We do not support interpreting this as a requirement for identical investment treatment irrespective of age, retirement plans or protected rights. DWP should state how the receiving arrangement relates to the main scale default arrangement and what separate records may be retained to protect member rights.

Which scale option

A - alignment with scale including transition pathway: PMI's provisional preference is Option A. Schemes meeting the full threshold and those on a regulator-approved transition pathway should both be eligible, provided they pass the operational tests from entry. Transition-pathway consolidators should have monitored milestones and a contingency plan for failure to reach full scale.

B - alignment with scale (full threshold only): We do not favour Option B over A unless DWP demonstrates that excluding transition-pathway schemes is necessary to protect members and leaves sufficient willing consolidators and capacity. A simpler asset test is not, on its own, a sufficient reason to restrict entry.

C higher scale threshold: PMI does not support Option C. The small pots regime should align with the wider scale framework rather than impose a higher bespoke threshold. DWP should assess operational capability separately instead of using a larger asset requirement as a proxy.

VFM and flat-fee protection

Yes. PMI supports allowing both light green and dark green schemes to act as consolidators, provided they meet the other authorisation requirements. The qualifying rating should relate to the arrangement receiving the pots. DWP and the regulators must specify the action triggered by a rating downgrade, including when new allocations stop and when existing members require remediation or transfer.

Our proposed position is to broaden flat-fee protection where automatic consolidation would otherwise cause a member to lose protection solely because the combined balance crosses the exemption threshold. DWP should test charging outcomes before and after consolidation and prevent the process from exposing small balances to disproportionate fixed charges. The protection should apply consistently across comparable trust-based and contract-based arrangements. We do not recommend a new monetary threshold without evidence on member outcomes and market viability.

Single-pot-per-member administration

Yes. Each consolidator should maintain one consolidating account per member and merge subsequent eligible receipts into it. It should not create a new account for each transfer. Separate underlying records should remain permissible where necessary to preserve protected pension ages, tax treatment or other rights; those records should not create additional charges or unnecessary member-facing pots.

6. Maintaining standards, withdrawal and market viability

Ongoing supervision should be aligned with the wider regulatory framework. Government should avoid creating a separate, inconsistent failure regime for consolidators, while recognising the additional responsibilities arising from default allocation. Responses should be proportionate to the problem and protect members rather than pursue a theoretically perfect structure at the cost of unnecessary transfers and a viable consolidation market.

1. Retention within scheme: Permit retention where the regulator is satisfied that the scheme remains suitable for existing members, despite no longer qualifying for new allocations. Stop new default allocations, require a documented remediation or exit plan and monitor delivery. Do not force a transfer solely because the scheme no longer meets an entry condition if retention protects member outcomes.

2. Transfer small pot component: No. PMI opposes routinely separating and transferring the historic small-pot component from a consolidated account. This would recreate fragmentation and require unnecessary reconstruction of components. Separate records needed to preserve rights should not, by themselves, trigger a partial transfer.

3. Full transfer to alternative consolidator: Require an orderly transfer of the whole affected consolidating account where the regulator determines that retention would expose members to poor outcomes or the scheme cannot remedy the failure. The transfer plan must address protected rights, member choices, legal requirements and receiving-scheme capacity. It should not automatically extend to unrelated benefits outside that account.

A go/no-go test before launch

DWP should require a formal go/no-go decision before automatic allocations begin. Launch should depend on sufficient independent consolidators having committed capacity to receive the expected flow of pots, with workable arrangements if one withdraws. Eligibility on paper is not evidence of willingness to participate.

Before launch, DWP should publish its assessment of committed participation, aggregate processing capacity, commercial sustainability, concentration risk and the fallback allocation process. It should test whether the system can continue if a participant exits. If these tests are not met, launch should be deferred or phased differently. Requirements may be simplified where evidence supports that change, but essential member protections should not be relaxed to secure participation.

7. Digital infrastructure, matching and open standards

We support a federated approach based on open, interoperable standards. The starting point should be an assessment of what already works, not an assumption that a new end-to-end transfer system is needed. Existing capability should be reused where it meets the required standard.

The central oversight body should set and enforce common rules for participant verification, data exchange, matching, allocation, interoperability and escalation. It should not replicate transfer services already available unless DWP identifies a specific gap. Schemes should be able to build a compliant connection or buy one from a supplier, and all compliant services should interoperate.

Data and transfer controls

A minimum interoperable dataset should cover identity and matching information, pot eligibility, dormancy, valuation, relevant guarantees and protections, member elections, destination and transaction status. National Insurance numbers (NINOs) should be used where lawfully available, alongside other validated identifiers; a missing, erroneous or mismatched NINO should trigger an exception process rather than an unsafe match.

Standards should specify matching confidence, treatment of conflicting data, duplicate detection, manual resolution, rechecking before transfer and reconciliation after receipt. A failed match must not lead to allocation to the wrong person. There should be a clear audit trail, rules on lawful processing, data minimisation, retention, cyber security and accountability for correcting errors.

Electronic processes should support validation, transfer tracking, prompt reconciliation, reinvestment and clear member updates, drawing on proven market practice. Cash and in-specie capability can inform an interoperable architecture without making every transfer type a launch requirement. The legal framework should allocate liability for incorrect matching, duplicate payments, failed transfers and loss of protection, with a simple route to redress.

Pensions dashboards should be used as an alignment opportunity for data standards, identification and member understanding. Discovery, matching and transfer authority are distinct functions: existing dashboard connections should not be assumed to deliver automatic consolidation without additional design and assurance.

8. Employer duties and maintaining member information

The PMI does not support making employers primarily responsible for annually refreshing deferred members' contact details. Schemes and providers should own the ongoing pension record and give members a direct route to update it. Employer duties should cover information employers hold reliably, not duplicate the provider's continuing relationship with the member.

Employers should supply accurate joining and leaving data and notify schemes of known temporary contribution breaks through existing payroll or administration processes. They should not be required to predict whether an employee will resume contributions or maintain contact data indefinitely after employment ends. Providers and administrators should resolve subsequent member-record updates directly.

Providers should offer members a secure way to supply and update a personal email address, with a non-digital alternative. Employers should not have to resubmit unchanged information that has already been validated.

9. Recommendations and implementation

Government should publish a coordinated delivery plan with clear ownership, common standards and realistic dependencies across related pensions reforms. Testing should include hybrid AVCs, legacy records, temporary contribution breaks, protected rights, changes of consolidator, unmatched members, late contributions and consolidator withdrawal.

Implementation should be phased, with published readiness criteria before live allocations and monitoring of matching errors, transfer completion, costs, preserved rights, member complaints, opt-outs and market participation. Measures should assess member outcomes as well as pot reductions. A review should consider scope, the inflation-adjusted relevance of the £1,000 threshold, dormancy and charging protection in light of operational evidence.

The objective should be a system that is simple enough to use, robust enough to protect members and viable enough to operate. Building on agreed standards and existing frameworks is more likely to achieve that than creating parallel requirements for every aspect of the journey.