

UK - Update

DWP announces proposals for automatic transfers of pension pots

The Department for Work and Pensions (DWP) has announced that, in future, workers' pension pots will automatically transfer from their previous employer to their new employer when they move between jobs. The new legislation will apply to pots held on a defined contribution (money purchase) basis.

The DWP's policy document, entitled **Automatic transfers: consolidating pension savings**, follows on from a consultation launched in December 2011 and an initial Government response issued in July 2012.

It is believed that the average worker works for 11 employers in the course of her career. One potential consequence of this is that an individual can accumulate a series of separate, stranded pension pots which it is difficult to keep track of. Pots can be transferred as a worker moves between jobs, but the initiative to make such transfers lies with the worker, and pension schemes are not legally required to accept transfers of workers' existing pots.

The problem is bad enough at the moment: recent research by Age UK indicates that nearly a quarter of workers have lost track of at least one pension pot. But the introduction of **compulsory automatic enrolment legislation** risks making matters even worse, as millions more workers enter the pension system. The DWP expects that automatic enrolment will create around 50 million dormant pension pots by 2050. Of these, 12 million will be worth under GBP 2,000 and 33 million will be worth under GBP 10,000. Not only is this unsatisfactory from the point of view of the individuals concerned, it will entail a great deal of inefficiency for the pension industry, as trustees and providers will be required to administer millions of small, often forgotten, pension pots.

Further pressure on the system will be created by the abolition of rights to short service refunds. These rights allow a member of an occupational pension scheme to receive a refund of his or her contributions if s/he leaves employment within the first two years. This change, which is intended to take effect in 2014, will result in even more small pension pots being created as individuals move between jobs.

The proposals provide for automatic transfers of workers' pension pots from their former employer to their new employer when they move between jobs. The legislation will apply only to defined contribution (money purchase) pension rights. Workers with defined benefit (final salary) pensions will be unaffected.

A pot will only be eligible for automatic transfer if it is worth under GBP 10,000 and was created after a certain date, so the legislation will not have retrospective effect. Workers will be able to opt out of the legislation and leave their pension pots where they are when they get a new job (or else transfer them to another pension vehicle of their own choosing).

The Government will prescribe through regulations what information needs to be given to workers and by whom. The Pensions Regulator will act as the watchdog of the system.

Clyde & Co Comment

There has been some debate in the pensions industry as to whether or not it is advisable for the Government to bring forward these proposals, and they have received a mixed reception from bodies ranging from the CBI to the TUC. However, they are aimed at addressing a genuine problem, and it has been clear for some time that there has been an appetite on the part of the DWP to legislate in this area.

The immediate consequence of the new legislation for the industry will be a new layer of regulation and compliance. However, schemes and providers will be spared the sheer administrative burden of dealing with 50 million small stranded pots.

It remains to be seen how great an effect the proposals will have. Only low-paid workers and those who change jobs frequently should end up falling with the ambit of the new regime. A worker earning the national average salary of GBP 26,500 with 8% pension contributions – i.e. the level required by the automatic enrolment legislation – will need to stay in post for less than five years before his pot exceeds the GBP 10,000 limit (leaving aside inflation, investment returns and fees). The impact of the proposals is therefore unlikely to be radical.

Further information

If you would like further information on any issue raised in this update please contact:

Mark Howard

E: mark.howard@clydeco.com

Judith Donnelly

E: judith.donnelly@clydeco.com

Jack Wheeler

E: jack.wheeler@clydeco.com

Paul Hodges

E: paul.hodges@clydeco.com

Clyde & Co LLP
The St Botolph Building
138 Houndsditch
London EC3A 7AR

T: +44 (0)20 7876 5000

F: +44 (0)20 7876 5111

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