

Letters Editor
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Sir, the Government is right to be concerned about the proliferation of small pension pots that will be created with automatic enrolment. Neither scheme members nor the pensions industry stands to benefit from workers leaving a trail of small pots as they move from job to job. We agree on the importance of finding a way to manage these small pots safely, efficiently and in the interests of pension scheme members, and we welcome the Government's focus on this important issue.

We are, however, very concerned that the Government is moving far too quickly to prescribe a system for automatically transferring pension pots every time a person moves jobs without having fully worked out how to safeguard savers' interests. Therefore, our organisations collectively call on the Government to accept Opposition amendments to Clause 33 and Schedule 17 of the Pensions Bill, being debated [today/on Wednesday 26 February]. We believe these amendments will give the Government the flexibility to develop and implement a system of automatic pension transfers that will best deliver its objectives.

The 'pot follows member' system of transfers has a number of inherent risks and weaknesses that must be properly considered and addressed. Firstly savers' pension pots risk being reduced if they are moved from well-run schemes to those with higher charges, penalty charges when members stop contributing, and less robust governance. Savings could be switched out of investment assets into cash and then re-invested from cash into investment assets every time the member changes jobs and joins a new pension scheme, thus exposing savers to repeated transaction costs. In volatile market conditions, members could be exposed to extra investment risk while their money is out of the market during the transfer process.

'Pot follows member' could also have an adverse impact on investment strategies; for example, it might lead to greater use of asset classes with high liquidity but low growth rates. More broadly, the regular movement of billions of pounds of assets might itself have an impact on the market. In addition, the burden of establishing and administering a system to enable these transfers could impose significant costs on pension schemes and employers.

Alternative proposals have been made to manage a number of these risks but these, like 'pot follows member', require more detailed thinking to ensure savers' interests are safeguarded. We believe that widening the scope of the legislation to allow the development of more than one potential

model would be the most useful step the Government could take to ensure we can tackle the proliferation of small pots effectively.

We urge the Government to accept these amendments.



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