Small Pots Policy Team
Department for Work and Pensions
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Your ref
Our ref CY/JMR
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By email: smallpots.policyteam@dwp.gov.uk

Dear DWP Small Pots Team

USS response: *Small Pots: a pathway for consolidation*

We welcome the opportunity to respond to this consultation. We support the government's aim of reducing the number of small, deferred pots, cutting costs across the system and improving outcomes for savers. We have responded in letter form, addressing the questions most relevant to USS, as our concerns stem from the specific hybrid structure of our Scheme.

Our central point is simple and consistent with the position we have set out in previous consultation responses. **Every member in USS has a defined benefit (DB) pension, with some also having a defined contribution (DC) pot on top. A member only contributes to the DC element of the Scheme if they are also contributing to the DB element. Moving a small, dormant USS DC pot to a consolidator therefore directly contradicts the policy intention behind the proposals. In almost every instance it will mean the member has an additional scheme**, because they remain part of USS due to their DB benefits, whilst also being a member of the consolidator scheme. Exceptions are extremely rare: since DC was introduced in 2016, only three members have transferred out their DB benefits while leaving their DC savings in USS. So capturing USS would increase administration costs, harm outcomes for savers, and exacerbate the issue you are seeking to solve.

We are therefore asking for an objective test: DC pots are out of scope where the member holds DB benefits in the same scheme alongside their DC pot, and DC contributions form part of a single benefit structure. This could be achieved in a number of ways, one of which would be to exclude schemes where **the minimum automatic enrolment quality requirements are met through the DB element of the scheme**, with the DC element as a top-up. This would be simple to apply, as it builds on the existing automatic enrolment quality requirements, and would require no member-level assessment. Where the objective test is met, the pot should fall outside the scope of the consolidation regime automatically, without a trustee decision or requirement to notify the member. This would naturally extend the consultation's approach to pot eligibility and exemptions, however, it may already be the policy intention that such pots would fall outside the regime. If so, we would welcome clear confirmation.

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About USS

Universities Superannuation Scheme (USS) was established in 1974 as the principal pension scheme for universities and Higher Education institutions in the UK. We work with around 320 employers to help build a secure financial future for almost 599,000 members and their families. We are one of the largest pension schemes in the UK, with total assets of around £84bn, of which £4.2bn are in the DC element (at 31 March 2026). USS is a hybrid pension scheme operating under a single trust, with a DB element, the Retirement Income Builder, and a DC element, the Investment Builder.

Why transferring USS DC pots would defeat the policy intent

The small pots reforms rest on the premise that a small, dormant pot is a pension the member has drifted away from, and that bringing it together with others leaves them with fewer pensions to keep track of. That premise does not hold for USS.

In USS, DC savings are built *on top of* a DB pension, not instead of one. A member whose DC pot is transferred out therefore **remains a USS member, keeps their USS DB pension and continues to receive communications from us**. The transfer does not remove a scheme from their life but rather could add a new provider that they have no previous connection with. This would be further exacerbated should members resume contributions to the USS DC element; they would then hold two DC pots across two schemes.

For USS members, DC pots are not lost nor are they forgotten. They sit alongside the member's DB benefits, are reported on the same annual statement, and are designed to be drawn together with those benefits at retirement.

Members would lose valuable benefits

Transferring a DC pot out of USS would strip away benefits to the member that currently exist precisely because it sits within an integrated hybrid scheme. These include:

- USS members benefit from an employer subsidy of investment and administration charges (effectively reducing them to zero) on their DC funds, whereas a member could be exposed to the full charges in the receiving scheme;
- the ability to use the DC pot to provide tax-free cash at retirement which means that members can take more of their DB pension as guaranteed income and allows relevant DC savings to be taken tax-free, rather than subsequently drawn as taxable pension income; and
- a single, integrated retirement journey, member experience and communications across their DB and DC benefits, rather than benefits split across providers.

Losing these benefits would not be in a USS member's best interests.

We welcome the government's intention that the assessment of guarantees and protections should not be overly burdensome and may be carried out at group level rather than pot by pot (paragraph 51). However, the proposed framework (paragraphs 48 to 53) still requires trustee discretion and member notification, and is framed strictly around guarantees that increase a pot's value beyond contributions paid. Several of the benefits above do not fit neatly within that definition. The answer for USS members who also hold DB benefits would be the same in every case, so the process would add cost and potential confusion without changing the outcome. That process should not apply where a pot meets the objective test we propose: the pot would be outside scope by operation of the regulations, without a trustee decision or member notification.

No reduction in administrative cost

Should a DC pot be transferred, USS would continue to administer every affected member's DB pension and to communicate with them. On top of that, we would need to issue transfer notices, explain the nature of the protections being lost and our reasons for treating pots as outside the scope of consolidation (paragraph 74), handle opt-ins, and set up new USS DC pots if and when contributions restart. Members would receive a letter telling them their USS DC pension is being moved, while their USS DB pension stays exactly where it is. That is likely to cause confusion, not engagement.

What we are asking for

An objective test: DC pots are out of scope where the member holds DB benefits in the same scheme. One way to achieve this would be to exclude schemes where **the minimum automatic enrolment quality requirements are met through a DB arrangement**, rather than the DC element. This would be simple to apply and would require no member-level assessment, trustee decision or member communication. If this approach is already the policy intention, we would welcome confirmation.

We would be happy to provide technical input to support the drafting of the regulations, and we look forward to engaging further, including through the second consultation expected in 2027/28.

Yours sincerely

Carol Young
Group Chief Executive Officer