

Unlocking the UK pensions market for growth

Consultation Response

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Ministerial Foreword

To make a real difference to the outcomes of millions of hardworking savers and increase investment in the UK economy, we must act boldly. That is what this government will do. This consultation response sets out the legislative framework for ‘Megafunds’, pension funds that will have the scale, expertise and diversified investment portfolios that can support better outcomes for savers and the UK as a whole, able to go toe to toe for investment opportunities with the biggest international pension schemes.

More people than ever are now saving into a Defined Contribution (DC) pension. As that market matures it will become the main source of private retirement incomes, so all of us want to ensure it is fit for purpose. These reforms have been carefully designed to ensure that is the case, supporting a pension market with the highest standards and investment capabilities, focused on maximising retirement outcomes for DC savers.

There is also increasing recognition of the role our pensions landscape plays in underpinning our wider economy. Growth is the central mission of this government, and ‘Megafunds’ will be better placed to be the long term, patient sources of capital that the UK is painfully short of. This will support UK companies, infrastructure projects and other private markets. A greater allocation to high-growth businesses, as part of a diversified and balanced portfolio, can be good for the UK and good for savers who can benefit from more diversified investments and higher returns, improving their retirement outcomes.

The government’s long-term vision for the UK’s DC pensions system is clear. We want a competitive market of fewer, larger, well-run schemes with the capability and scale to invest for the longer term which can benefit savers and their communities. Alongside that we need to see a more cultural shift – from an excessively narrow focus on cost onto what matters most for savers: returns, and the eventual size of their pension pots.

The proposals in our consultation are ambitious, and I am mindful that they represent a significant change to the current system. I have listened carefully to the responses to the consultation and that is why I am setting out a pragmatic approach to implementation. As the Minister for Pensions, I am grateful for the time and thought so many have invested in the Pensions Investment Review. Your contributions and challenges have played an integral part in the development and design of measures which will protect and grow the hard-earned retirement savings of millions of UK pension savers for years to come.

Thank you for your continued support.



Torsten Bell MP
Minister for Pensions

Chapter 1

Summary

1.1 This document is the government's response to the public consultation that was launched on 14 November 2024 and closed on 16 January 2025. The consultation sought views on proposals to deliver scale, accelerate consolidation and drive a focus on value over cost in the Defined Contribution (DC) workplace pensions market.

1.2 The consultation set out proposals to:

- require that multi-employer DC pension schemes used for automatic enrolment (AE) should have a minimum size, and maximum number, of default funds; and
- enable contractual overrides for contract-based pension arrangements, subject to appropriate saver protections, to enable transfers without consent into either trust-based or contract-based arrangements to aid the shift to fewer, larger schemes.

1.3 The consultation also explored:

- the role of differential pricing in a consolidated market; and
- the role of employers and their advisers and sought views on the merits of proposals to encourage them to focus on value from their workplace pensions.

1.4 113 responses were received to the consultation. The list of respondents is in Annex A. 107 respondents are listed as six responses were received from individuals acting in a personal capacity rather than on behalf of an organisation.

Chapter 2

Achieving scale in the Defined Contribution market

Background

2.1 Chapter 2 of the consultation document considered the role of scale in the Defined Contribution (DC) market, exploring whether increasing scale can improve investment opportunities and saver outcomes. The consultation sought views on the benefits and challenges of setting a minimum size requirement for Assets Under Management (AUM) and restricting the number of default funds.

2.2 Key areas of discussion included the impact of scale on investment diversity and pricing, as well as potential consequences for smaller schemes and savers. We asked respondents to also consider the need for exemptions, flexibility, and safeguards to balance competition, innovation, and systemic risk while ensuring the long-term sustainability of the market.

Consultation questions and summary of responses

Number of funds

2.3 We proposed that restricting the number of default funds in multi-employer DC schemes could help simplify and consolidate the DC market. As fewer, consolidated funds would be able to reach the scale needed to take advantage of a wider range of investment opportunities which could deliver improved returns for savers, it could also make comparing different pension provider performance easier for employers. Savers should also see increased value in their pension pots by paying lower fees.

2.4 We asked:

Question 1: Do you think that providers should be restricted to a limited number of default funds, and if not why? Please consider any equality considerations, conditions and to what extent saver choice could be impacted.

Question 2: The proposed approach at default fund level could mean that the number of default arrangements would remain unchanged. Will imposing the requirement at this level have any impacts on the diversity of investments or the pricing offered to employers?

Responses summary

2.5 The majority of responses from providers of default funds were not in favour of placing restrictions on the number of default funds, citing a lack of evidence that such limitations would improve saver outcomes. Many expressed concerns that this approach could reduce saver choice and flexibility, particularly for employers and those with specific investment needs, such as ethical or religious considerations. Additionally, respondents highlighted that market consolidation is already occurring naturally and that imposing restrictions could have unintended negative consequences, such as removing from the market smaller schemes that currently provide high-quality saver outcomes.

2.6 Similarly, most respondents believed that imposing a maximum number of default funds may adversely impact investment diversity and pricing. They warned that such measures could introduce complexity to the design of life styling or target date funds, as well as the potential for higher employer cost.

2.7 However, respondents also acknowledged that there is too much fragmentation in the market, although they believed that the Value for Money (VFM) Framework and the proposed contractual override measure should drive change and help to address these legacy issues. Some respondents also acknowledged that having fewer defaults could unlock efficiency benefits, leading to reduced costs and improved focus on governance.

2.8 Most respondents felt that any size and scale requirements should be set at the default arrangement level within a provider, rather than at an individual fund level. They argued it is at the arrangement level where pension scheme providers can determine the asset mix from the default arrangement. They also highlighted the difficulties setting the scale requirement at fund level would create given the different default arrangements and structures that exist.

2.9 Some respondents highlighted the added benefits that having a broad asset base at scheme arrangement level could bring. They said it can provide leverage to negotiate lower fees and enables greater investment diversification into asset classes such as private equity or infrastructure, where illiquidity risks can be better managed at scale. Some responses also said that restricting the number of default strategies could have the added benefit longer term of promoting more equitable pricing structures.

2.10 A minority of respondents fully supported setting a maximum number of defaults to help with achieving the government objective of consolidation. With some of this minority saying it may also help refocus the market on quality and transparency of their default funds.

Government response

2.11 We have listened to the consultation responses and agree that applying scale requirements at a default arrangement level is key to being able to utilise the benefits that scale can bring.

2.12 We also want to do more to prevent further and unnecessary fragmentation in the market, and to ensure existing funds are delivering value for savers.

2.13 We looked closely at the feedback we received to the consultation proposal to place restrictions on the number of defaults providers can offer. Whilst respondents accepted there was too much fragmentation in the market, they were against placing limits on the maximum number of default funds they can hold.

2.14 Having considered the responses, we believe focusing on building scale at a provider's main default arrangement level will deliver significant investment and improved saver outcomes. We are therefore proposing an approach that moves the market towards a position where there is at least one large "Megafund" default arrangement at the centre of a provider's proposition.

2.15 Placing the scale requirements at default arrangement level will allow schemes to continue operating current strategies for Target Date Funds or life-styling glide paths which in turn will help deliver the wider government objectives regarding diversified investment portfolios. Our view is that it is at this level where the benefits of scale, increased buying power, ability to negotiate lower fees and greater investment diversification can be achieved.

2.16 We are not requiring providers to consolidate every other arrangements that sit outside their large "Megafund" default arrangements or setting a fixed number, as we recognise that there could be circumstances where it will be in savers' best interests to remain in their existing default arrangement. However, we are setting a clear expectations that providers and trustees proactively consider consolidation into their main default arrangement, only not doing so where it would not be in savers interests to do so.

Addressing market fragmentation

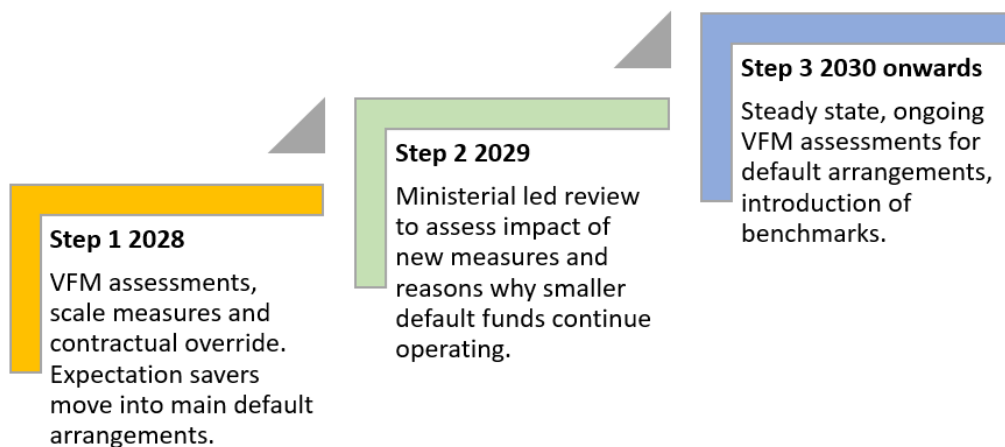
2.17 We recognise that there is a need to prevent further fragmentation within the market. Therefore, we propose introducing new restrictions on schemes looking to create and operate new default arrangements: they will need to apply for regulatory approval to do so. The precise nature of these conditions will be subject to further

consultation and set out in secondary legislation, but we expect them to include:

- the arrangement is necessary to meet the needs of a protected characteristic;
- the arrangement is necessary to meet an ethical need; and
- the arrangement is necessary for an employer to manage conflicts of interest.

2.18 In addition, permission could be given by a regulator to operate an additional arrangement where there is a genuine employer need or to drive innovation.

Three step approach to addressing fragmentation



2.19 We also want to ensure action is taken to reduce the number of non-main defaults that are delivering poor value. We are therefore proposing a three-step approach to reduce their number: an expectation of movement in savers best interests, a one-off challenge stage focused on those remaining and making appropriate use of the outcome of assessments under the VFM Framework process.

2.20 Step 1: We expect providers and trustees to proactively consider consolidating their defaults and take action where appropriate, unless moving savers into the main scale default arrangements will not be beneficial or other justifications apply. The new VFM Framework and contractual override measures will enable trustees and providers to understand where fragmentation is not in savers' best interests and will require providers and trustees to address poor value including moving savers out of poor value arrangements. We are expecting providers and trustees to begin to plan for this work in advance of step 2 and VFM and contractual override coming into effect.

2.21 Step 2: Once the VFM Framework and contractual override measures are operational (anticipated in 2028), we will establish a Ministerial-led review to examine the available evidence and explore the reasons why any default arrangements remain outside the expected main scale default arrangements. The detail of the operation of the review will depend on the number and nature of default arrangements that remain (or are not in the process of being consolidated). However, we expect the work of the review to start from the presumption that savers should be in scale arrangements unless there is a clear and demonstrable beneficial reason for them to remain in another arrangement. We will provide for a legislative underpin to be able to tackle any remaining fragmentation as needed. We would expect the review to start its examination once the first year of VFM Framework assessments has been completed, and the contractual override measure has had time to take effect.

2.22 Step 3: Assessing the findings and recommendations from the work of the review to see what if any further action may be needed. By this stage we would expect that the number of non-main defaults should have significantly reduced, and they should only exist where there is a strong reason for them to do so. Moving forward it is anticipated that regulator defined benchmarks would form part of the VFM Framework to help drive good saver outcomes and protect savers from poor performance.

Achieving a minimum size of assets under management at default fund level

2.23 The proposals sought to take advantage of the economic benefits created by bigger pension funds. Responses to the September 2024 Call for Evidence and international evidence suggest that the benefits of scale largely begin to take effect at around £25 billion in AUM, and DWP analysis shows benefits from an investment capability and economic growth perspective are found at over £50 billion. In the consultation we asked:

Question 3: What do you think is the appropriate minimum size of AUM at default fund level within MTs/GPPs for these schemes to achieve better outcomes for members and maximise investment opportunities in productive assets?

Question 4: Are any other flexibilities or conditions needed regarding the minimum size of AUM (for example, should it be disapplied in circumstances at regulators discretion for example to enable an innovator to provide competitive challenge in the market or be disapplied in case of a market shock or another specified circumstance)?

Responses summary

2.24 The majority of respondents, whilst supportive of the government's scale objectives, felt this could be achieved organically or through existing policy initiatives such as the VFM Framework, rather than setting a minimum AUM scale requirement. Many respondents felt there is insufficient evidence to justify this level of market intervention and many deemed that scale, on its own, does not necessarily lead to better investment diversification or increased investment in the UK, and that market consolidation is already occurring naturally.

2.25 Respondents raised concerns that if the proposed requirements were introduced too quickly and at too high an AUM threshold, that there would be risks around potential market disruption, industry resources and costs associated with imposing these requirements. Some respondents highlighted the impact the proposals would have on smaller schemes. Some raised concerns that small schemes may be delivering strong saver outcomes but could struggle under the minimum AUM threshold proposed in the consultation, by 2030, as they may not be selected by employers, via advisers to take on new business due to the proposals.

2.26 Alternative approaches were put forward by respondents, such as introducing a "comply or explain" framework based on productive asset tests. Or assessing how schemes might show they have the attributes of scale through existing regulatory frameworks like VFM or Master Trust authorisation, particularly the business plan. Respondents also expressed a preference that if government did proceed with a minimum AUM threshold or default fund limits, that requirements should be set at the scheme default arrangement level rather than underlying default fund level, with a lower range for a minimum AUM threshold of £5-15bn, with requirements introduced gradually.

2.27 Some large providers were, however, strongly in favour of setting a minimum AUM scale requirement. Many suggested a lower initial scale level of over £20bn with a very small number proposing £50bn. However, responses overall did not coalesce around a particular figure.

2.28 These respondents also suggested that £25bn of AUM is a level where schemes can start to seriously consider private market investment and that the full benefits of scale will start to be realised when schemes reach £50bn. Some pointed to the examples of existing providers currently at scale who have been able to negotiate reduced asset manager costs and used these savings to invest in a wider range of asset classes. These responses highlighted that as schemes grow, they are more likely to have the capabilities to directly invest in private markets and that this will only be economically viable for the largest schemes. Some responses also said it is the certainty of future inflows that enables larger schemes to take on more long-term investments that could generate higher returns.

Government response

2.29 The government remains of the view that there are inherent benefits to scale, for both the economy and pension savers. This is based on the evidence summarised in last year's Pension fund investment and the UK economy report¹, which assessed a wide range of UK and international evidence on the benefits of scale. DWP analysis indicates that through decreased costs and increased diversification an average earner who begins to save for their retirement in 2025 could see an increase of £6,000 to their pension pot. Subsequently The People's Pension² have also published a report which has explored the benefits of scale to pension savers. ,

2.30 However, we have also looked closely at the points raised by respondents on the required level of scale, the timing, sequencing with other measures in train, and the potential impact of change with these proposed reforms.

2.31 Each multi-employer AE workplace pension provider or scheme must have at least one main scale default arrangement. A minimum scale requirement of £25bn in AUM will apply for this arrangement from 2030.

2.32 In the consultation, we acknowledged that there are various terms used by the industry when referring to defaults and that these are used interchangeably. The government's objective is to ensure a default used for scale can be clearly understood and that it is uniquely identifiable within the industry, and we intend to define this as 'a main scale default arrangement'. We plan to define the full characteristics of this level in secondary legislation.

2.33 The existing definitions of default arrangement, such as in regulation 3 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015, cannot be relied on alone, as these were developed for different purposes and would not support our objectives on fund consolidation and investment.

2.34 Our intention is that the definition used will allow schemes to continue operating current strategies for Target Date Funds or life-styling, which support the delivery of good saver outcomes and in turn will help deliver wider government objectives regarding diversified investment portfolios. We will engage further with the industry in developing the full definition including through formal consultation.

¹ <https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy>

² <https://peoplespartnership.co.uk/wp-content/uploads/2025/01/Achieving-critical-mass-investing-in-private-markets-report.pdf>

Transition Pathway

2.35 We have listened carefully to the feedback we received and will take a pragmatic approach regarding the implementation of AUM thresholds to allow more time and space for smaller providers to comply with new scale requirements.

2.36 After reviewing the evidence and responses to the consultation, we have decided to have a transition pathway which will allow additional time for schemes to reach scale. Where a Provider or Master Trust can demonstrate they will have at least £10 billion in AUM in one main default arrangement by 2030, they will be able to apply to the regulators to be placed on the transition pathway. To join the transition pathway schemes will need to satisfy regulators that they have a robust and deliverable plan to grow the size of their main default arrangement to £25bn by 2035 and we fully expect schemes on this pathway to be able to meet this requirement. By 2035 all multi-employer schemes and providers will be required to have a minimum of £25 billion in one main scale default arrangement.

2.37 We will also legislate to require Providers or Master Trusts at scale to demonstrate they have, or are building, an investment capability commensurate with scale. To utilise their scale, we will require there to be suitably qualified investment expertise in-house as well as strong governance.

2.38 Schemes will be able to access the transition pathway so long as they can demonstrate to regulators that they meet certain quantitative and qualitative conditions. To access the transition pathway, providers will need to make an application to regulators in 2029 and there will be a specified timeframe for regulators to respond with the outcome of their decision. We intend to set out the specific requirements for the transition pathway in secondary legislation following further consultation with industry and regulators to ensure we get the details and mechanics right.

Below is an example of some of the quantitative and qualitative features we would expect providers to be able to demonstrate to be on the transition pathway. To be eligible to access the transition pathway, providers must:

- i. Have minimum scale in one main default arrangement of no less than £10bn by 2030.
- ii. Provide a credible plan to demonstrate how the default arrangement will be able to grow to the required minimum scale of £25bn by 2035.
- iii. Satisfy investment related conditions such as a target level of investment in productive / UK assets and fees benchmarked against a scheme already operating at scale.
- iv. Meet governance and value related conditions such as in-house investment expertise and good VFM assessments.

2.39 For schemes who cannot reach the scale requirements (by 2030 or 2035) or access the transition pathway, they will no longer be able to participate in the AE market and all future AE contributions will cease. These schemes will then be expected to consider wind up or consolidation. We will work to introduce support for employers who will need to move to a scheme or provider with scale and ensure that they do not inadvertently breach their AE duties.

Implementing a minimum size of AUM at default fund level

2.40 We explored introducing a minimum size of AUM at default fund level, along with new requirements for a maximum number of default funds by a date no earlier than 2030. The intention was to allow sufficient time for corporate planning whilst ensuring the pace of consolidation increased with the associated benefits realised. We believed that implementation no earlier than 2030 provided the industry with sufficient warning and time for necessary actions to take place and we sought views on this approach.

2.41 We asked:

Question 5: Do you think there should be targets for (i) achieving a reduction in default fund numbers down to a single fund and, (ii) setting incremental minimum AUM?

Question 6: Are there any potential barriers/challenges that should be considered in reaching a minimum size of AUM at default fund level before a future date, such as 2030?

Question 7: Given the above examples, what exclusions, if any, from a required minimum size of AUM at default fund level and/or the maximum number of default funds requirement should government consider?

Question 10: We would welcome views on what further interventions or regulatory changes might be necessary or beneficial to accelerate this process?

Responses summary

2.42 Respondents largely opposed setting targets to reduce the number of default funds to a single fund, emphasising the need for flexibility to accommodate different employer and saver needs. Many were against imposing incremental AUM requirements, with concerns that there is insufficient evidence to support the claim that higher AUM leads to better saver outcomes or investment diversification. However, if the government were to introduce minimum scale requirements, many

respondents suggested setting the threshold at £5-£15 billion or phasing in requirements over time, such as starting at £10 billion and increasing this gradually. There was also support for policy that led to a reduction in the number of poor performing legacy defaults, and respondents noted a single fund could lead to administrative efficiencies.

2.43 Several barriers to achieving minimum AUM targets and reducing default funds were highlighted. Regulatory challenges, including the FCA's 80% rule and accidental defaults, were identified as barriers to efforts to set a maximum number of default funds. Many respondents also said an appropriate amount of time would be needed to consolidate defaults and schemes and noted that this is a complex and time-consuming process which can typically take 1-2 years to complete. There were also concerns raised about the risk of selling assets over a short period as this could negatively impact on savers. Some respondents also said government should simplify the consolidation process for Master Trusts, in respect to triggering events and continuity options.

2.44 Given the already high demands on industry and regulatory resources, due to initiatives like the Pensions Dashboards, the VFM Framework, and inheritance tax changes on unused pension pots, many respondents noted that additional consolidation measures could stretch industry capacity further.

2.45 The vast majority of respondents agreed that exemptions would be necessary if new requirements were introduced. Some called for broad exemptions, including significant regulatory discretion. Specific exemptions were widely supported for hybrid schemes with linked Defined Benefit (DB) accrual (where scale is achieved with the DB element), schemes catering to protected characteristics such as religious beliefs, and new entrants like future multi-employer Collective Defined Contribution (CDC) schemes. There was also some support for exempting ethical/ESG funds from rules that would restrict the number of defaults a provider may offer.

2.46 As highlighted in Question 4, many respondents supported less interventionist approaches to achieving scale and increasing investment in productive assets. A commonly suggested alternative was a "comply or explain" approach based on a productive asset test. Under this approach, providers would be required to justify their investment decisions based on productive assets, rather than relying on scale as a rationale for non-compliance. Other suggested approaches included assessing how schemes (and their business plans) meet attributes of scale through the VFM Framework or the Master Trust framework and incorporating a new permission for providers similar to the Master Trust model. Many respondents also emphasised the need for regulatory discretion in any framework to allow flexibility and account for changing market conditions.

Government response

2.47 We do not propose to set a numerical target for the number of defaults in legislation. However, we remain of the view that tackling fragmentation is necessary, and we expect to see the industry take proactive action to address this issue and our plans for a three-step approach to ensure action is taken to reduce the number of poor performing defaults are set out above. As mentioned above, we also remain of the view that the evidence shows that there are inherent benefits to scale that can be beneficial for both the economy and pension savers.³

2.48 A wide range of exemptions were proposed in the consultation responses and, in considering them, we have sought to balance the policy objectives of driving scale and protecting the interests of savers. To do this, we intend to exempt schemes with certain characteristics from the scope of scale requirements. These are where schemes have connected or concurrent DB accrual and the scheme is only available to a group of related (i.e. through industry or profession), but not legally connected, employers. We also intend to introduce exemptions for schemes that solely cater for protected characteristics, for example to meet religious beliefs.

2.49 We have carefully considered the alternative policy options put forward such as a “comply or explain” approach or business plan assessment. Whilst there is merit in these approaches, they also involve substantive ongoing regulatory engagement but do not offer the certainty of driving change. Therefore, we do not believe that they will have the same impact in driving the change that is needed for pension schemes to deliver for savers and for the economy. As discussed earlier, we are introducing a transition pathway to help manage the pace of change and we will also shortly be setting out a roadmap to bring together all the different pension reforms currently in train.

Impacts on innovation and competition

2.50 The Pensions Investment Review Terms of Reference set out that the government will factor in implications for financial stability objectives when developing its recommendations. Maintaining innovation in workplace pensions is also critical to ensuring that schemes continue to meet saver needs now, and in the future, and that pension products continue to meet the needs of employers. As a result, this consultation sought feedback on these priorities and the need for mechanisms to allow future entrants to the market, and for safeguards to protect against systemic risk.

³ For example, see: <https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy>; and <https://peoplespartnership.co.uk/wp-content/uploads/2025/01/Achieving-critical-mass-investing-in-private-markets-report.pdf>.

2.51 We asked:

Question 8: With regards to the proposals in this chapter, we anticipate the need for mechanisms to encourage innovation and competition, and for safeguards to protect against systemic risk. Are there other key risks that we need to consider? How do we mitigate against them?

Question 9: Under a minimum AUM model, competition in the market could be more restricted. Would additional exceptions be required to ensure innovation can continue to flourish?

Responses summary

2.52 Many respondents highlighted barriers to entry as a key risk, noting that compliance costs and regulatory requirements could disadvantage smaller firms and new market entrants. Some expressed concerns that the proposals might inadvertently reinforce the dominance of established players, limiting competition and innovation. To mitigate this, respondents suggested proportionate regulatory frameworks that ensure a level playing field, support for startups through regulatory sandboxes, and measures to reduce compliance burdens without compromising financial stability and consumer protection. Additionally, some respondents emphasised the need for mechanisms to encourage innovation and competition while safeguarding against systemic risk. Some raised concerns about potential unintended consequences, such as regulatory arbitrage, market concentration, or gaps in oversight that could pose risks to financial stability. To address these challenges, respondents recommended ongoing monitoring, stress testing, and adaptable regulatory measures that evolve with developments in the market.

2.53 Some respondents noted that reducing the number of auto enrolment schemes could support systemic risks to be better managed, and regulators to be better able to develop relationships with providers.

2.54 While some supported exemptions for new or innovative schemes that serve unmet market needs, others warned that widespread exemptions could undermine the intended benefits of consolidation. Many stakeholders called for a clearer definition of innovation and suggested mechanisms such as a 'glide path' exemption, allowing new entrants time to reach scale while being subject to regulatory oversight.

2.55 Some respondents suggested that the proposal could alleviate the level of competition on cost and intensify competition on value. This could not only support better outcomes for savers but is in line with government's ambitions for the pensions sector.

Government response

2.56 We agree with respondents that it will be important to enable innovative new entrants. However, this does need to be balanced against a need to be confident that innovative new entrants will have a credible path to achieve the required scale over time and be able to build the capability to demonstrate the attributes and outcomes that scale can deliver.

2.57 In particular, we have considered how scale requirements can sit alongside the introduction of Collective Defined Contribution (CDC) schemes for unconnected multi-employer schemes which the government is keen to enable and consulted on in October 2024.

2.58 The first CDC scheme was launched by Royal Mail last year and there are several parties who are awaiting the laying of regulations later this year which would allow them to launch unconnected multi-employer CDC schemes. These multi-employer schemes aim to provide a predictable income in retirement and protect savers from short-term market volatility. In doing so, they are well placed to invest in illiquid and more productive investments over the long term. The CDC sector is in its early stages, encouraged by government support over several years, and at a pivotal point where significant investment to secure the necessary authorisation is just around the corner.

2.59 We therefore think it is right that potential providers of this important innovation should have confidence about how the new scale requirements should apply to them. We very much value what CDC brings to the pensions market, and we intend to make clear in legislation that CDC schemes are exempt from the scale requirement. Due to their nature and the requirements of authorisation, CDC schemes will naturally have a degree of scale and invest productively, but we will keep the market under review and consider if we need to take further steps to ensure that is the case.

2.60 We also intend to introduce a pathway for new entrants through the introduction of additional authorisation criteria and threshold conditions for new entrants with innovative products offering something significantly different. This will require them to satisfy regulators that they have a credible plan to achieve scale and to be able to build an investment capability commensurate with the benefits of scale.

2.61 As part of this pathway, we will expect new entrants to be able to show how their proposal can benefit savers (e.g. through lower prices, higher quality, better security etc) and how any potential risks have been considered and addressed. We will also expect new entrants to set out how this innovation is an improvement on established market provision.

Differential pricing

2.62 We would like to see a move from an excessively narrow focus on price and cost, to a more rounded one on value, investment returns and member services. We want to explore whether moving to a single price could help with this.

2.63 Some respondents to the Call for Evidence⁴ (2024) raised concerns that employers are paying different prices for the same default fund and service from the same provider. This can adversely impact employers with smaller workforces and those with a high turnover of staff and impact their choice of schemes.

2.64 We asked:

Question 11: How would moving to a single price for the same default impact positively or negatively on employers, members and providers?

Responses summary

2.65 Many respondents agreed there should be a single price for investment charges and that they see the logic in the move, noting that this approach aligns with current industry practice. However, there was strong opposition by the vast majority to a single price for administration charges, as they believed it would be operationally challenging and remove employers' ability to negotiate cost reductions through economies of scale.

2.66 Respondents claimed that a uniform pricing model could increase costs for lower-paid employees and limit investment budgets, potentially reducing the quality of investment outcomes. Additionally, some warned that smaller employers might face restricted access to a range of schemes if a single price were implemented.

2.67 It was highlighted that the consultation overlooked that servicing costs per member typically decrease as scheme size grows. It was also argued that if providers were unable to differentiate pricing, they might instead introduce varying levels of service, raising fairness concerns regarding the quality of support different employers receive.

Government response

2.68 We have carefully considered the issue of single pricing and the feedback we received. We accept that any changes in relation to pricing will need further analysis to assess the costs and benefits of any

⁴ [Pensions Investment Review: Call for Evidence - GOV.UK](#)

change including distributional impacts and any unintended consequences.

2.69 Consequently, we do not propose at this point to introduce any measures that would require the market to implement a single pricing structure. However, given the ongoing debate around cost and value, we will undertake the further analysis set out above and consider how the initial operation of the VFM Framework along with the impact of the other measures being proposed here will reshape the market. This will allow a future assessment as to whether there has been sufficient movement away from the focus on cost (price) to mean that further interventions in this area are not necessary.

Chapter 3

Contractual override without consent for contract-based arrangements

Background

3.1 Chapter 3 of the consultation document set out proposals to enable contractual overrides without consent for contract-based pension arrangements, subject to appropriate protections. These proposals would enable either contract variations or transfers without consent into either a trust-based or contract-based arrangement (such as Group Personal Pensions (GPPs)). The consultation sought views on the circumstances and process for transfers, consumer safeguards and protections, costs of transfers and the role of the regulators.

3.2 The contract-based workplace pensions market is dominated by a small number of large financial services firms; however, these providers can have hundreds of pension arrangements, and we expect some of these may not be delivering value for savers. A “contractual override” or “bulk transfer” will allow contract-based pension providers to either modify current contracts or move savers from older contract-based schemes to modern, better value and more efficient products. This will help both savers and providers, will facilitate consolidation and will create broad equivalence with trust-based pension schemes.

Consultation questions and summary of responses

Conditions/circumstances for transfers

3.3 The government is aware that there is currently no cost effective or proportionate way for providers to vary contracts or to transfer savers from a contract-based arrangement without individual consent. In the consultation, we noted that there may be situations where, with necessary protections, contractual overrides may be appropriate. This could be where it is needed to comply with other frameworks, such as under the VFM Framework, or it could be initiated by the provider

where it would be in the best interests of savers, for example consolidating old, poor value legacy arrangements.

3.4 We asked:

Question 12: Under what circumstances should providers be able to transfer savers to a new arrangement without their consent?

Responses summary

3.5 Most respondents were in favour of contractual overrides without consent, stating it would level the playing field with trust-based schemes, where bulk transfers without individual consent are already allowed. Many noted it would reduce historic fragmentation by allowing the consolidation of older legacy products into newer, better value arrangements, which would be mutually beneficial to savers and providers.

3.6 It was also noted that there would need to be clear and consistent guidelines, as well as sufficient safeguards in place to ensure transfers were in savers' best interests. Many respondents supported contractual overrides being closely linked to the VFM Framework, noting that VFM data could be used to ensure that transfers were only to arrangements providing value, as well as enabling transfers where an arrangement is found to be not value for money.

3.7 A minority of respondents, mainly consumer groups, opposed the proposal due to concerns regarding the risk to consumers. Some expressed principled objections, arguing that consent should always be sought, while others stressed the need for appropriate consumer protections and avenues for redress to ensure that savers would not be disadvantaged by a contractual override.

Government response

3.8 We agree with respondents that a contractual override power is necessary, to ensure parity with trust-based schemes, reduce fragmentation, and improve saver outcomes. We also acknowledge concerns and agree with consumer groups that strong consumer protections will be needed, which we discuss further below.

3.9 We propose that contractual overrides be available where a provider initiates an override, and the preconditions (such as savers' best interest) are met. There may be some circumstances where under other rules or regulations (such as under the VFM Framework) a provider is required to improve arrangements or move savers to a better value arrangement. In those cases, the contractual override mechanism will be used.

3.10 The initial scope of the proposal will be workplace pensions, including stakeholder pensions, as this is where savers are automatically enrolled and often disengaged, but with ability to extend to non-workplace pensions in the future through secondary legislation if needed.

Process

3.11 To ensure that the conditions for a contractual override are met, we proposed that providers be required to obtain a positive assessment from an independent third party with sufficient expertise and asked whether this role could be fulfilled by a provider's Independent Governance Committee (IGC) or Governance Advisory Arrangements (GAAs). We also asked what role an active employer should have in the contractual override process.

3.12 We asked:

Question 13: Do you think that an independent expert, such as an IGC, should be responsible for undertaking the assessment of whether a transfer is appropriate?

Question 14: What, if any, changes may be needed to the way an IGC's role, or their responsibilities/powers for them to assess and approve contractual overrides and bulk transfers?

Question 15: What, if any, role should the employer have in the transfer process?

Question 16: For active schemes, would a transfer require a new contract between the employer and provider?

Responses summary

Independent expert and the suitability of IGCs

3.13 Almost all the responses agreed on the need for an independent expert to be involved in the process of a contractual override. Many said that an independent expert should assess and report on the proposed override, or even veto a transfer, but that the decision-making authority must remain with the provider.

3.14 Respondents were split on how well placed IGCs are to carry out this role. Some respondents stated that IGCs will be well placed, due to their parallels with the role of trustees and current requirements on them in FCA rules to act solely in the interests of savers and to assess the ongoing value for money of schemes. Respondents also noted that this role would be expanded to assigning VFM ratings for default arrangements under the proposals for the VFM Framework.

3.15 Other respondents had concerns about how independent IGCs are from providers and the extra burden this would place on IGCs. Others noted that IGCs may need indemnity against legal action, or to take independent advice of their own in order to make an assessment. Some commented that although IGCs in their current form would not be appropriate, changes could be made to enhance their independence and responsibilities to make them suitable. Other respondents suggested that other suitably qualified persons, such as investment actuaries or FCA regulated advisers, could fulfil the role.

3.16 A few respondents argued that there was no need for an independent expert at all, as current FCA rules, in particular the Consumer Duty, provided protection for savers. They also argued that the override process should be as efficient and streamlined as possible.

Role of employers

3.17 There was broad agreement amongst respondents that active employers should be involved in some way. Most agreed that employers must be notified and that in some cases it may be appropriate to consult them on the choice of receiving arrangement. Most also agreed that employers would be best placed to support communications with savers, where their relationship was ongoing. A few argued that employers should have a larger role and be able to choose the receiving scheme or be able to initiate a transfer.

3.18 Most respondents pointed out that the main contractual relationship is between the provider and the saver, but that employers often also have a contract with the provider, which would need updating or transferring in some cases.

Government response

3.19 To ensure that the requirements for contractual overrides are met, we agree that providers should be required to obtain a positive assessment from an independent third party with sufficient expertise. A contractual override will not be able to proceed if an assessment is negative. The assessment will certify that the provider has met the best interest test and complied with relevant processes and safeguards.

3.20 The government does not propose to specify in legislation who may carry out the role of an independent expert, but we do intend to specify criteria that anyone fulfilling this role must meet. For example, it could be carried out by an actuary. The government acknowledges that some IGCs in their current form may not meet the criteria for an independent expert. However, IGC's role and form could be changed, in order to enable them to fulfil the role of independent expert.

3.21 The government agrees that active employers will be an interested party in proposed contractual overrides and should be notified of any proposed changes. However, the employer of the saver

whose contract is being overridden will not play a specific role as part of the process. The government expects that an active employer will be consulted by the provider where appropriate, and that any views be considered when assessing whether the proposed override is in the savers' best interests.

Consumer safeguards and protections

3.22 This proposal involves the overriding of the contractual rights of individual savers. It is therefore fundamental to ensure that it is developed with appropriate consumer safeguards and protections in place. In the consultation, we proposed that a 'best interest test' be applied, so that overrides are only enabled where it is expected to deliver better outcomes to savers, and this is confirmed by an independent expert. We also consulted on opt-out rights, access to recourse and compensation, notification and safeguarded benefits.

3.23 We asked:

Question 17: What procedural safeguards would be needed to ensure that a new pension arrangement is suitable and in the best interests of members? What other parties should be involved and/or responsible for deciding the new arrangement?

Question 18: Do you foresee any issues with regards to transferring savers from contract-based arrangements to either other contract-based arrangements or trust-based arrangements? If so, what issues?

Question 19: What safeguards and measures should be put in place to ensure that consumers are protected?

Question 20: Are there any specific circumstances in which a transfer should not be allowed to take place, or savers should be able to opt out?

Question 21: What complications could arise if savers have the choice to opt-out of a transfer and remain in their current arrangement?

Question 22: In what circumstances do you think that consumers/savers should have the right to compensation or an individual right of recourse enforceable in court?

Question 23: What safeguards from trust-based bulk transfers may be appropriate for contractual overrides, so that similar consumer protections apply?

Question 24: Where the transfer is into a trust should the duties of the receiving scheme trustees be extended to ensure terms and conditions balance both the interests of incoming and current members?

Responses summary

Best interest test and procedural safeguards

3.24 Almost all respondents agreed that there needs to be sufficient consumer safeguards and protections in place to mitigate risks to savers, and that the proposals in the consultation (best interest test, independent expert, notification requirements and rights of recourse) would be effective in achieving this. Respondents agreed that an override must be in the best interests of savers, with many stating that transfers should only be allowed into “value” rated schemes under the VFM Framework. A few respondents argued that current rules, for example the Consumer Duty, would be adequate to safeguard savers’ interests. Consumer groups raised concerns about the risk that savers will be moved and experience poor outcomes.

3.25 On issues to be aware of, respondents raised compatibility of governance between contract-based and trust-based schemes and the transfer of assets between the two, the potential loss of benefits such as tax exemptions and the risk of operational errors during a transfer process. A minority of respondents noted that contractual overrides, without adequate consumer protection, may engage Article 1 Protocol 1 of the European Convention on Human Rights.

3.26 In cases where there are safeguarded benefits such as guaranteed annuity rates or situations where savers are close to retirement, there was near unanimous agreement that this would require careful consideration and handling, with either compensation payable if a transfer were to take place and benefits were lost, or a possible finding that a transfer would not be in the best interests of savers.

Rights of recourse and compensation

3.27 The majority of respondents were in favour of avenues of redress being open to savers, with access to the Financial Ombudsman Service, or a similar body, being recommended. However, many respondents stressed recourse should only be available where proper process or due care has not been taken. Future financial loss where an override was made in good faith should not be actionable.

Saver opt-out rights

3.28 Most respondents agreed savers should not be able to opt-out and remain in an old or closing scheme, as this would undermine consolidation aims and could lead to savers remaining in poor value scheme with higher costs. Rather, if savers did not agree to the proposed receiving scheme, they should have the option to choose a different destination. This could be done through the notification process, in order to give savers adequate time to engage.

3.29 A minority suggested that an opt-out and remain process should be allowed but only on the basis of specific criteria, for example, being close to retirement or having a safeguarded benefit or guarantee.

Government response

3.30 We agree with respondents that it is crucial to get the consumer safeguards and protections right to minimise the risk of poor outcomes for consumers. To ensure this, contractual overrides will only be allowed where it is in the best interests of savers. Primary legislation will require that a best interest test must be met for providers to initiate a contractual override. This will introduce for contract-based schemes a broadly equivalent level of protection to trust-based transfers, where trustees must exercise their bulk transfer powers in the best interests of beneficiaries.

3.31 When determining the destination of any internal transfer, a provider will need to consider the full range of its arrangements including any master trust it offers. As set out above, the independent expert will also have a role in certifying that the best interest test is met. We expect that the data and assessments disclosed through the VFM Framework will assist with this process, which will focus on overall holistic value to savers.

3.32 We agree with respondents that savers who do not agree to a proposed contractual override will be able to 'opt-out' and self-select an alternative destination arrangement.

3.33 The provider will also be required to give interested parties sufficient notice of proposed overrides, as well as detailed information about any proposed transfer and what it will mean for the party. For active employers, this may include a right to be consulted on the proposed receiving scheme. For savers, it could include information on how they can opt-out of the proposed transfer and choose their own destination arrangement. There may also be a requirement to notify the FCA.

3.34 On redress, savers will be able to use existing routes to seek redress where the provider, for example, fails to follow procedural processes, acts negligently or acts in bad faith and savers are worse off as a result. Avenues of redress will also be available against the independent party under contract law. This will ensure broad equivalence with trust-based bulk transfers. Normal financial services dispute mechanisms and compensation schemes will apply.

3.35 As it is impossible to fully predict future investment performance, and providers and independent experts cannot be held accountable for future market events resulting in worse outcomes for savers, we do not propose a right of redress where there is detrimental impact alone, to either individual savers or to the membership as a whole. To do so could create a cooling effect and would risk the power not being used for fear of legal recourse.

Cost of transfer

3.36 Transferring savers from one arrangement to another, whether this transfer is internal within a provider or from one provider to another, will inevitably involve a cost. This is a cost that will need to be covered by either the provider, the savers, or in some cases, the employer. To better understand the costs that a transfer would generate, and where those costs would fall, we asked the following questions.

Question 25: How should the cost of the transfer be borne?

Question 26: What costs do you expect to be involved in a contractual override/bulk transfer and what factors may influence the level of costs?

Question 27: What benefits may a member lose out on because of a bulk transfer? What benefits could they gain?

Responses summary

3.37 Respondents generally agreed that savers should not be burdened with most of the costs involved with a contractual override, suggesting that providers should cover these expenses in the majority of cases. Some respondents argued that savers should never bear any of the costs in any situation.

3.38 Some responses proposed that the instigating party for a transfer should be responsible for payment, and in cases where a (VFM) trigger necessitated the move, savers might contribute. They also noted that “administrative” costs such as investment transaction costs should naturally fall to savers but be considered as part of evaluating the contractual override, including in the independent assessment.

3.39 A few respondents mentioned that they were unable to offer a definitive opinion, as varying circumstances demand different approaches and therefore there should not be a prescriptive approach to how costs are split. Some responses also argued for including any potential costs in negotiations around the contractual override. However, there was broad consensus that costs should be minimised.

3.40 The most commonly noted costs that would be incurred included work by independent experts, professional and legal advice, and transition expenses (such as transaction and operational costs). Administrative expenses were also heavily mentioned, encompassing data transfer costs, and costs stemming from supporting a larger saver base. These included compliance with regulators, saver communications, and system maintenance. Additionally, out-of-market risks were noted by a minority of respondents.

3.41 Respondents also noted how a lot of these costs will vary depending on the number of savers involved and the complexity of the transaction. Some responses also mentioned how external market factors such as a period of significant market volatility could impact costs. A small number of responses also focussed on additional costs a saver could incur, such as them taking advice themselves, which they suggested should be at their own cost.

3.42 The majority of respondents focused on what a saver may lose, rather than gain, and tended to suggest that certain protections including tax protections, interest rate caps, discounts and guarantees, including guaranteed annuity rates or age of retirement, that their original scheme provided may be lost.

3.43 Some mentioned positives that could result in a transfer and most commonly referred to gains through being part of a better performing, more sustainable, scheme with potentially better governance structures, though it was noted investment performance cannot be predicted. It was also suggested that by having fewer schemes, relative administrative costs would reduce for providers, due to economies of scale.

Government response

3.44 The government agrees that costs should be kept to a minimum and that the saver should not bear the majority of the costs involved in a contractual override. Therefore, the costs of the transfer will be borne by the pension provider and where a transfer is to another provider, these costs could be split across the two providers. The government does understand that some of these costs may be indirectly borne by the savers, for example, transactional costs such as the buying and selling of assets. It will be the case that any such costs will need to be considered as part of the best interest tests.

3.45 Providers will also be required to comply with existing FCA consumer protection rules such as Consumer Duty.

Role of the Regulators

3.46 The FCA is responsible for regulating and supervising contract-based pensions, including contract-based workplace pensions.

Legislation will be needed to override individual contractual rights and enable transfers without individual saver consent, and it will set out the key safeguards and protections. The FCA, as the regulator responsible, will use its rule-making powers to make further appropriate rules for contractual overrides and transfer without consent.

3.47 As part of this, we asked whether the FCA may need new powers in legislation to monitor and enforce contractual overrides in particular if these are made mandatory. We also asked what role, if any, the Pensions Regulator (TPR) should have where a transfer is to a trust-based scheme.

3.48 We asked:

Question 28: What role should the FCA, and where appropriate TPR, have in contractual overrides and the bulk transfer process?

Responses summary

3.49 The majority of responses stated that the FCA should exercise its usual role in setting rules and supervising the use of the new power. Some responses also mentioned that TPR may want to review its guidance for trustees in receiving schemes. Only a few respondents suggested that the FCA should have to approve contractual overrides.

3.50 Some respondents also advocated for harmonising the regulatory regimes between contractual overrides and bulk transfers to ensure consistency of approach for providers, savers and employers.

Government response

3.51 The government has been working closely with the FCA on the contractual override measures to ensure that they have the correct powers to supervise and enforce appropriately. The government proposes that legislation will introduce the power to override individual contractual rights and enable transfers without individual saver consent, as well as mandating the above outlined consumer protections and processes. The FCA, as the regulator responsible, will then use its rule-making powers to make the detailed rules for contractual overrides and transfer without consent within the parameters of what the government set out in primary legislation. The FCA would also have supervisory oversight of contractual overrides, and bulk transfers, and will be notified about proposed transfers.

3.52 The government will continue to explore with TPR if any updates to regulation or guidance are needed to clarify the role and duties of receiving trustees. TPR will continue its role of regulating receiving schemes and trustees in such cases.

Chapter 4

Cost versus Value: the role of employers and advisers

Background

4.1 Under this Chapter in the consultation document, the government explored the role of employers and advisers and sought further views on the relative merits of proposals to encourage these groups to reduce an excessive focus on costs which comes at the expense of considering a broader range of metrics of scheme quality and limits budgets to enable investment in a broader set of asset classes.

Consultation questions and summary of responses

The role of employers

4.2 Respondents to the September 2024 Call for Evidence suggested that to drive a shift in culture all participants in the pension's ecosystem, including employers, should be focused on value. Some of the respondents then suggested that placing a duty on employers to consider long-term value over costs when selecting or renewing a pension arrangement could be part of the solution.

4.3 We asked:

Question 29: Do you think establishing a named executive with responsibility for retirement outcomes of staff could shift from the focus on cost and improve the quality of employer decision-making on pensions?

Question 30: What evidence is there that placing a duty on employers to consider value would result in better member outcomes? If such a duty was introduced, what form should it take? Should it apply to a certain size of employer only? How can we ensure it is easier for employers to make value for money comparisons?

Responses summary

4.4 Overall, respondents expressed their concern about increasing burdens and costs on business in the current environment. There was broad agreement that leveraging and improving existing structures such as Master Trusts and the roll out of the Value for Money Framework would be crucial in supporting a wider focus on value.

4.5 Some stakeholders suggested that the measures consulted on should be evaluated once the scaling of pension schemes has shaped up, ensuring that regulations are informed and impactful.

4.6 The majority were against establishing a named executive with responsibility for employee pension outcome to ensure value. A broad range of respondents questioned the practicality of imposing this duty especially amongst smaller employers and whether it would be effective as larger employers should already have the relevant structure in place.

4.7 Respondents were in broad agreement, including from those few in favour of establishing a named executive, that this should only apply to larger employers (250+ employees).

4.8 Despite the widely recognised need to move towards more focus on value, the majority of respondents opposed the proposal to introduce an employer duty due to the potential additional burdens and costs a new duty would create, especially for small employers. Several respondents also highlighted the lack of expertise to conduct an assessment of value amongst smaller employers.

4.9 Those respondents who supported an employer duty tended to be further away from this duty or would be less directly impacted by it. Respondents – both for and against such duty - were in broad agreement that if a duty to consider value in pension schemes was imposed it should primarily apply to larger employers (those with 250+ employees).

4.10 The majority of respondents' view across a broad range of stakeholders suggested the responsibility for ensuring value should lie with advisers rather than employers.

Government response

4.11 The government welcomes the input received in relation to the proposed role of employers and acknowledge all the points raised.

4.12 The government observes that larger employers who are already engaged in considering pension arrangements have a shared interest in the review's objective to deliver greater investment in the UK economy and higher returns for savers in the country. The government looks forward to continuing engaging with them to discuss what is in their employees' best interests.

4.13 The government recognises that the level of fragmentation in the current market compounds the challenge of placing a requirement on employers at the present time – a consolidated market with fewer larger schemes, better governance and publicly available comparable metrics should reduce the burden of making value-based considerations in future.

4.14 The government therefore agrees that the planned implementation of the VFM Framework will more rapidly facilitate the movement of savers from poor value schemes to better governed schemes than action targeting employers, the majority of whom will be hard to engage.

The role of advisers

4.15 Respondents to the Call for Evidence indicated that professional advisers can play a significant role in influencing the decisions taken by multi-employer pension schemes in relation to cost and investments

4.16 Specifically, respondents raised concerns that professional advice, especially advice provided to employers, may be placing excessive weight on cost savings, aggravating the problem described above. The government wants to understand the prevalence of this, recognising that these advisers are ultimately driven by their clients' preferences.

4.17 We asked:

Question 31: What evidence is there that regulating the advice that some employers receive on pension selection will better enable them to consider overall value when selecting a scheme?

Question 32: What evidence is there that regulating the advice that pension schemes receive on investment strategies would enable more productive asset allocation? What type of regulation would be effective?

Responses summary

4.18 There were mixed views on whether regulating the advice employers receive from Employer Benefit Consultants would help them consider overall value.

4.19 Respondents in favour of regulation highlighted the need to raise standards and consistency of advice across the industry and that firms who are currently regulated have the scale and expertise to evaluate the whole market.

4.20 Respondents against regulation highlighted that it may increase the cost of advice and the availability of it for smaller employers and several advisory firms highlighted that value for money is already considered.

4.21 The majority of respondents supported the idea of regulation of investment consultants due to their significant role in investment allocation within DC pension schemes. However, there was more limited support for the suggestion that regulation would lead to more productive asset allocation.

4.22 Respondents supportive of regulating also suggested regulation could improve the quality of investment consultants' advice.

4.23 Respondents against regulating pointed to a lack of evidence that it would lead to more productive asset allocation. In addition, they pointed out the potential cost burden on smaller employers, and the risk of overregulation leading to lower quality advice.

Government response

4.24 The government welcomes the input received in relation to the proposed regulation of advisers. There was limited evidence, however, that the specific measures considered would support the objectives of the review in increasing productive investment and returns to savers.

4.25 Therefore, the Final Report does not include proposals to influence advisers through regulation or legislation, though it does not rule them out in future. Given the historic wider concerns raised related to these activities (including on market competition dynamics), the government will continue to liaise with the FCA and the Competition and Markets Authority to consider any new evidence.

Chapter 5

Impacts and Evidence

Background

5.1 The questions in Chapter 5 were less readily answered than those in other chapters, with the questions largely being specific to pension providers.

5.2 Overall, 37 respondents answered at least one of the Chapter 5 questions, with the majority of respondents being pension providers. However, these respondents did not provide complete coverage of the multi-employer DC workplace pensions market. Alongside pension providers, respondents included legal and consultancy firms, scheme trustees, and industry bodies, with these respondents generally answering a subset of the questions.

5.3 Specific questions were sometimes not answered, or exact figures were purposely omitted, with commercial sensitivity being cited.

Default funds

Question 33: How many AE workplace default arrangements and default funds do you have?

Question 34: What is the total AUM you have across all these AE workplace default arrangements and default funds?

Question 35: Do you have a small number (for example 3-5) of AE workplace default arrangements/funds that cover the majority of these assets and if so, how many of these are there?

5.4 Overall, 23 providers gave information relating to their defaults. Of these:

- 9 offer a Master Trust and a GPP;
- 8 offer only a Master Trust;
- 3 offer only a GPP; and
- 3 offer a hybrid DB-DC scheme.

5.5 Across responses, there were sometimes inconsistent interpretations of “arrangements” and “funds”, with these occasionally used interchangeably. However, responses clearly illustrated that there is large variation in structures across providers:

- for some providers, many funds sit beneath many arrangements. For example, where providers have several default arrangements which each utilise a different combination of building block funds;
- for some providers, there are a limited number of funds per arrangement. For example, where there are two default funds used by a provider’s default arrangement;
- for providers utilising more intricate life-styling, where the risk profile of portfolios is adjusted given the proximity of a saver to retirement, there can be many funds per arrangement; and
- generally, Master Trusts appear to have fewer funds per arrangement than GPPs.

5.6 Alongside the variation in funds per arrangement, there was also large variation in the number of default arrangements themselves. Though not a universal rule, GPPs also tended to have more default arrangements, with some having hundreds. By contrast, there were examples of Master Trusts with tens of billions of pounds of AUM within a single default arrangement.

5.7 Analysing the AUM breakdowns provided by respondents, it appeared that 3 schemes had over £25bn AUM in a default arrangement, with 9 schemes having over £10bn in a default arrangement. However, caution should be taken when using these findings, with the responses requiring interpretation and standardisation. Also, respondents are only a subset of the DC workplace pensions market. If instead considering AUM thresholds at fund level or scheme level, rather than at arrangement level, it appears that these results would differ substantially.

Combining funds and schemes

Question 36: Have you previously combined default funds or arrangements together within the same organisation?
If ‘yes’, do you have an estimate of the cost of this (overall or on a per pot basis)?
If ‘no’, do you have an estimate of how much you think this might cost (overall or on a per pot basis)

Question 37: Have you previously consolidated Single Employer Trust assets into a MT or GPP?
If ‘yes’, did you experience any barriers in this process? If so, could you set out what these were, if and how they were overcome, and how long the process took?

Question 36

5.8 9 of the 17 providers answering (53%) had previously combined default funds or arrangements together within the same organisation.

5.9 The main cost noted was transaction costs, the costs of buying and selling funds, generally noted as being 0.15% to 0.2% of the asset value transferred. This range is an average of the responses provided, with the estimates of some respondents falling outside of this range.

5.10 Other costs noted by respondents included:

- communication with employers and savers;
- advisers;
- legal;
- IT;
- resourcing, including project management and operational resource to facilitate the transitions; and
- administration costs, to ensure that records are correct.

Question 37

5.11 Restricting to those providers offering a Master Trust (including the providers offering both a Master Trust and a GPP) 13 of the 15 providers answering (87%) had previously consolidated Single Employer Trust assets into their scheme.

5.12 The main barriers noted were:

- timescales – generally several months are required, and in some cases over a year can be required;
- legal contracts (covering indemnities and warranties) can take time to agree;
- legal and consultancy costs can be high;
- transaction costs (the buying and selling of funds);
- a focus on cost by trustees, who are sometimes reluctant to agree transfers to higher cost solutions;
- capacity – only a limited number of schemes can be consolidated per year;
- where there are unique features such as GMP (guaranteed minimum pension) underpins – these are either not accepted or complex workarounds are required;
- pushback from the ceding provider; and
- specific to GPPs: requirement for saver consent.

Differential pricing

Question 38: Do you currently charge different price levels to different employers for the same default fund?
If so, what is the average price charged to members compared to lowest decile charge and 90th decile charge?

5.13 Use of differential pricing was almost universal among respondents, though only for administration / platform charges (i.e. not for investment charges).

5.14 Pricing differences were justified given:

- some employers require higher levels of service and support; and
- different employer sizes, which impact economies of scale, with lower marginal costs and higher contributions overall for larger employers.

5.15 Some providers had wide ranges in charges, including from a minimum of around 0.2% to a maximum of around 0.7%. Across responses, the difference between the 10th decile charge and the median charge tended to be around 0.15%-0.2%.

Group Personal Pensions (GPP) and Master Trusts (MT)

Question 39: Do you have experience of bulk transfer of pots within the same organisation?

If 'yes', do you have an estimate of the cost of this (overall or on a per pot basis)?

For those who run both a MT and a GPP:

Question 40: For those who run both a MT and a GPP:

Do you use the same defaults across the two offerings?

What has been the comparative investment performance and average cost/charge between the two for young (30 years before retirement) and older savers (1 day before retirement)?

Do you see a noticeable difference in the offer between your MT and GPP product?

Question 39

5.16 Responses to this question were often identical to or referenced the responses to Question 36, which related to the combining of default funds or arrangements together within the same organisation.

Question 40

5.17 7 of the 9 providers answering (78%) had the same defaults across their Master Trust and GPP offerings. Consequently, investment performance across these offerings was the same, though pricing often differed at the employer level. It was noted that close alignment between offerings enables providers to access economies of scale.

5.18 For one of the providers whose defaults differed, a reason given was that their Master Trust was built via acquisition.

GPP and MTs

Question 41: What is the estimated cost to an employer of reviewing a pension scheme every 3 to 5 years?

Question 42: What proportion of employers are estimated to use formal advisers when choosing, or switching, a pension scheme?

Question 41

5.19 Estimates of review costs generally fell between £5k and £50k, depending on factors such as:

- the scope of the review – is it an assessment of just the existing scheme, a comparison with a few other arrangements, or a full market review?;
- the size and complexity of the existing scheme;
- the size of employer; and
- the level of external advice utilised.

5.20 It was noted that easier access to information, following implementation of the VFM Framework, should lower costs.

5.21 Respondents reported that if a change of scheme subsequently occurred, there would be additional implementation costs, which will likely be far higher than the cost of review (due to asset transfers, project management, communications, etc.).

5.22 A respondent noted the experience and robustness of the review process can vary significantly, consequently being supportive of proposals to make this regulated advice.

Question 42

5.23 Employer size was the key determinant of adviser use.

5.24 Given different target markets (by employer size), there are large differences across providers:

- for one of the large Master Trusts, 80% of employers signed-up directly with them; and
- for some providers, employers almost universally use advisers to select them.

5.25 Many small businesses use their accountant or payroll provider for advice, while some turn to TPR.

5.26 Below, rough averages are provided of the proportion of employers estimated to use formal advisers. However, caution should be taken when using these findings, with different employer sizes utilised across responses, with standardisation consequently required. The averages are:

- SMEs (<250 employees): 30-40%;
- large (250+ employees): 80-90%; and
- overall: 50-60%.

Government response

5.27 The information provided in response to the questions in Chapter 5 has informed the development of legislation for the upcoming *Pension Schemes Bill*. Insights have also been utilised as part of Impact Assessments, including to develop modelling assumptions, enabling a more accurate appraisal of the proposed policies.

Annex A: Respondents to ‘Unlocking the UK pensions market for growth’

5.28 113 responses were received. 107 respondents are listed as six responses were received from individuals acting in a personal capacity rather than on behalf of an organisation.

- 100 Group
- ABI
- ACA
- Aegon
- Age UK
- Altus Consulting
- AMNT (Association of Member Nominated Trustees)
- Aon
- APPT
- AREP (Association of Real Estate Funds)
- Association of Pension Lawyers (APL)
- AstraZeneca UK Limited
- Aviva
- Barnett Waddingham LLP
- BCF Pension Trust
- B Music Ltd
- BlackRock
- Broadstone Corporate Benefits Limited
- BT Group
- BVCA
- Capita Pension Solutions
- Carbon Tracker Initiative (CTI)
- CBI
- CFA UK and CFAI
- CIPD
- City St George's, University of London
- CMS
- Coller Pensions Institute
- Colombia Threadneedle Asset Management Ltd
- Cushon
- Dean Wetton Advisory UK Ltd (DWA)
- Defined Contribution Investment Forum
- Dentons UK and Middle East LLP
- Ernst & Young LLP
- Eversheds Sutherland
- FCA Practitioner Panel
- Federated Hermes, Inc
- Fidelity International
- Finance Innovation Lab
- Financial Inclusion Centre
- FSB (Federation of Small Businesses)
- Gallagher Benefit Services
- Gowling WLG
- Hargreaves Lansdown
- Hymans Robertson
- IFoA (Institute and Faculty of Actuaries)
- Independent Governance Group (IGG)
- Invesco

- Investment & Life Assurance Group (ILAG)
- Investment Association
- Isio
- Lane Clark and Peacock LLP (LCP)
- LawDeb Pension Trustees
- Legal & General
- Legatum Institute Limited
- LifeSight Master Trust and WTW
- Liontrust Fund Partners LLP
- Lloyds Banking Group and Scottish Widows
- M&G
- Make My Money Matter
- Marsh McLennan's Mercer (MMC)
- Mobius
- MUFG RS
- My Pension Expert
- Nest
- Neuberger Berman
- Nuveen
- Oxfam GB
- PASA
- Peoples Partnership and TPP
- Pensions for Purpose
- Phoenix Group
- Pinsent Masons
- PLSA
- PMI
- PPI
- Principles for Responsible Investment (PRI)
- Prudential Assurance Company (Independent Governance Committee)
- Quoted Companies Alliance
- Railpen
- Redington Ltd
- Royal London
- Sackers
- SAUL (Superannuation Arrangements of University of London)
- SEI Master Trust
- ShareAction
- Shetland Islands Council Local Government Pension Scheme
- Schroders
- SJP
- Smart Pension
- SPP
- Standard Life Master Trusts
- The Cheviot Trust
- The Phoenix Group IGC
- TheCityUK
- TILLIT Limited
- TISA
- TPT
- Trade Unions Congress (TUC)
- UK Finance
- UNISON
- University of Oxford Staff Pension Scheme
- USS
- Vidett Ltd
- Which?
- XPS Group
- ZEDRA Governance Limited

HM Treasury contacts

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