Pension Schemes Bill

Call for Evidence submission.

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1. The Pensions Management Institute (PMI) is pleased to submit written evidence to this Public Bill Committee. As the UK's leading professional body for pensions professionals, we support over 7,000 members across a wide range of disciplines - including pension managers, lawyers, actuaries, consultants, and administrators - who collectively represent the breadth and depth of the pensions industry.
2. Our members play a critical role in managing and advising some of the world's largest institutions, helping to shape decisions that influence over £1 trillion in UK pension assets. For nearly five decades, the PMI has championed professional standards, delivered industry-leading qualifications, and fostered collaboration across the sector. Our response reflects the practical insights and experience of our members, who are committed to improving retirement outcomes and securing the long-term financial wellbeing of savers across the UK.

The Pension Schemes Bill – summary response

3. The PMI welcomes the introduction of the Pension Schemes Bill — a landmark package of reforms set to transform the UK's pension landscape. With sweeping changes including the Value for Money framework, small pots, DB Superfunds, guided retirement, and surplus extraction proposals, this represents the biggest overhaul of pensions in a generation.
4. The PMI is supportive of the vast majority of measures in the Bill and in particular the principles behind the main measures: to drive consolidation in the market with the aim of delivering better value for money, and ultimately outcomes for savers.
5. The PMI also supports the government's balanced approach to defined benefit schemes, reducing the risk of trapped surplus while protecting members' benefits and empowering trustees to manage assets more efficiently.
6. However, we are disappointed with what we see as Government overreach in a number of areas of the Bill, in particular the reserve power to mandate investment in private markets which we believe should be removed from the Bill. Trustees' fiduciary duties towards their scheme members should remain their primary concern when making investment decisions.
7. Whilst we are supportive of the principles behind Guided Retirement the lack of regulatory alignment between trust- and contract-based schemes raises concerns about consistency, consumer understanding, and long-term outcomes.
8. We applaud the clarity provided by the accompanying Pensions Reform Roadmap, which sets out a clear path for sequencing and implementing these vital measures. We have a number of suggestions for tweaks or changes to the roadmap that we have set out in this submission, in particular we disagree with the proposal to require schemes to comply with the Guided Retirement in advance of DC schemes meeting the scale requirements and would suggest moving this to after the majority of schemes have met the scale test or consolidated, i.e. from 2030.
9. Below we have set out more detailed responses to the 12 policies introduced in the Bill. For ease we have done this in the order set out in the legislation.

Local Government Pension Scheme

Local Government Pension Scheme – LGPS mega funds

10. The PMI supports the principle that larger funds are more likely to lead to better member outcomes (or in the LGPS's case more reduced calls for additional funding from employers and employees) through greater economies of scale and the opportunities to take advantage of the investment opportunities that scale provides.
11. Therefore, we are supportive of the move over the last decade or so to consolidate LGPS funds into a small number of asset pool companies. This has been done in a pragmatic manner, encouraged by Government whilst allowing local funds to make decisions about the most appropriate asset pool vehicle for them. We recognise this has led to a high degree of disparity across the pools and differing approaches to the degree to which these entities were regulated and actually pooling their assets most effectively. Therefore, we support the clarity these regulations bring around Government expectations for the pools and, in particular, how they should be regulated.
12. We also support the measures in the Bill to conduct regular scheme manager governance reviews, ensuring that individual administering authorities have sufficient knowledge and understanding and robust systems and process in place to manage their fund and set an appropriate investment strategy.
13. That said we are concerned with some of the measures in Clause 1 and 2 of the Bill. In particular:
14. Clause 1, Subsection (2) will 'allow the Secretary of State to require an LGPS administering authority (AA) to participate in a particular asset pool or cease to participate in a particular asset pool'. Given that AAs are owners of these pools in order to be able to ensure they provide the required investment pool and performance required by the AAs, forcing participation or non-participation feels like significant overreach.
15. Clause 2 will require the AA to set the investment strategy and yet require all the funds and assets of the AA to be held by the asset pool company. Whilst we agree with the principle that the vast majority of the AA's assets should be held in the asset pool, it should be acknowledged that this is likely to create difficulties in terms of the ability of the pool to meet the investment strategies of all owner AAs. For example, if each AA has an objective to invest in local infrastructure this would place a responsibility on the asset pool that it may not be able to meet in all circumstances. Even at the scale each pool will be operating, and with the requirement to develop this capability it may be difficult, if not impossible for the pool to meet all AA local infrastructure requirements and it is unclear what recourse the AA would have in these circumstances.
16. Clause 2 also requires the AA to take their principal advice on their investment strategy from the pool. Given that the AA is required to invest all of its assets via the pool this presents a major conflict of interest and puts a significant burden on the AA/scheme manager to ensure the pool is performing effectively with no independent checks and balances.

Defined Benefit Schemes

Defined benefit schemes – sharing of surplus

17. The PMI supports the government's balanced approach to DB surplus, reducing the risk of trapped surplus while protecting members' benefits and empowering trustees to manage assets more efficiently. We do note that even with the easements in the Bill, the requirements for a framework agreement, a surplus extraction policy and any necessary rule amendments do mean that the earliest a scheme could likely make a surplus payment would be 2028.
18. We were disappointed to see that the Government did not take the opportunity of the legislation to make it easier and/or more tax efficient for employers/schemes to use scheme surplus to fund contributions to DC arrangements, including those not held within the same trust. This would have opened up possibilities for many entities who have long since moved their ongoing DC provision to a master trust or contract-based arrangement.
19. We would welcome clarity on the funding basis the Government anticipates setting in order for a surplus payment to be made. The consultation response said DWP anticipated this being on a low dependency basis but the impact assessment accompanying the Bill uses 110% of low dependency which doesn't really reduce the buffer from where it currently stands. This also has implications for the level at which DB superfunds are able to extract profits – the PMI has previously argued that it would be sensible to align these levels to avoid regulatory arbitrage. We note the power under Clause 9 to allow TPR to prohibit surplus payments from superfunds, for example if the surplus regulations were to come into force earlier than the superfunds regulations and would argue that these two should be aligned in the Pensions Roadmap to avoid such a scenario.

Defined benefit - superfunds

20. The PMI warmly welcomes the inclusion of a permanent legislative regime for DB superfunds in the Bill.
21. The Pensions Regulator has rightly been working hard to establish an appropriate market of commercial consolidators, balancing the need to promote innovation in the interest of savers with the duty to protect members benefits. However, it has been forced to do via guidance and by asking schemes to seek clearance but with no legislative power to authorise and supervise such arrangements nor the legal power to stop transfers.
22. Inclusion in the Bill creates the legal footing for a fully regulated market providing better protection for members whilst also providing the regulatory clarity for new providers and trustees and employers wary of transferring to an unregulated arrangement. We note that schemes will no longer have to show that a buy-out is not a realistic prospect in future which we hope will make transfers into authorised arrangements easier and more appealing.
23. We also welcome the fact that regulations can extend the regime to new structures, we are aware of constant innovation in the DB end-game market, and it is important that the legislation provides sufficient flexibility for Government and TPR to response effectively to this.

Defined benefit – Virgin Media

24. Whilst not in the Bill as currently drafted, we note the announcement that the Government made alongside introduction of the Bill that it "will introduce legislation

to give affected pension schemes the ability to retrospectively obtain written actuarial confirmation that historic benefit changes met the necessary standards”. This is extremely welcome, and we look forward to seeing the change to the relevant legislation as soon as possible.

Defined contribution schemes

Defined contribution – value for money

25. The PMI supports the over-arching concept of the value for money framework, in particular the aim to move away from a focus on costs in order to look at the wider value being delivered to pension savers.
26. The lack of detail provided in the Bill makes it difficult to provide detailed comment and will also make it difficult for schemes to prepare effectively.
27. Based on the content of previous consultation documents we remain concerned about the potentially onerous set of requirements, in particular the complexity of some of the disclosures, calculation methods and depth of information being proposed. We believe this to be overly prescriptive, from what should be a “principle based” regulatory system supporting saver outcomes.
28. Whilst we agree that the initial focus on the VFM framework should be on workplace defaults we believe that it is critical that this extends to the retail sector and, in particular, to retirement products. The risk of ‘value leakage’ is greatest at the point the member is choosing what to do with their DC ‘pot(s)’ and it would provide much greater consumer protection to bring these products into this framework.
29. On sequencing there is an important interplay between the requirement to conduct VFM assessments and the contractual override. We are supportive of the override which we believe will make it easier for providers to consolidate members’ pots where it is in their best interest. However, the Roadmap currently has the contractual override provisions coming in before the first VFM assessment which is likely to make it difficult for providers to make a consistent case (especially with the current uncertainty around the detail) for the use of the override. We would argue that it would make sense to align the implementation of these two elements.

Defined contribution – Small pots consolidation

30. The PMI supports the provisions in the Bill to consolidate individuals’ small DC pension pots. We support any initiatives to help members keep track of their pension benefits and maximise their value and we agree that the current situation, where individuals are likely to end up with a minimum of 12 pensions pots is highly sub-optimal both for the individual and the industry.
31. We welcome the extension of the current Master Trust regime including extra criteria that Master Trusts will need to meet before they can become consolidators.
32. We note that a limit of £1000 has been used as the value to define a ‘small’ pot. We believe that this limit is too low and, at the very least should be set to rise annually in line with inflation otherwise we risk simply creating a new set of ‘small’ pots stranded in the pensions system. We would also argue that there need to be some guardrails applied to Clause 32 which grants the Secretary of State the power to amend the definition of ‘small’ in regulations. Whilst we have argued there should be annual uprating of the definition of ‘small’ we also believe that the guardrails in Subsection (2) are insufficient for a change that would have a significant impact on schemes and providers trying to (a) set their scheme investment strategies and (b) assess the extent

to which they will be able to meet the scale test by 2030. We would argue that any 'significant' change to the amount should come with a minimum notice period.

33. Finally, we are concerned about the broad powers around the use of the general levy to pay for the small pots infrastructure. We would welcome some guard rails around the extent to which the Bill enables Government to unilaterally raise the levy to pay for the small pots provisions in the Bill.

Defined contribution - DC mega funds

34. The PMI supports the principle that larger funds are more likely to lead to better member outcomes through greater economies of scale and the opportunities to take advantage of the investment opportunities that scale provides. Therefore, we are supportive of the principle behind the requirement for DC multi-employer schemes to have default arrangements, although in our response to the consultation we felt that £10bn was sufficient and therefore the £25bn in the Bill is higher than expected.

35. It is worth noting that consolidation is not without risk and, on its own, is not a guarantee of better outcomes. Moving to a smaller number of mega funds will:

    a. come with tangible and intangible costs of consolidation;

    b. put pressure on the resources and skilled required to consolidate effectively;

    c. potentially create confusion for the member as schemes consolidate; and

    d. create entities that pose greater systemic risks and will, in many cases be too big to fail.

36. We agree that certain multi-employer schemes such as those providing CDC, meeting the needs of a protected characteristic and hybrid schemes with specific employer groups should be exempt from such arrangements, although we remain concerned that the wording of the Bill may still capture some schemes that are not intended to be in scope, for example schemes or arrangements with GARS or with-profits. We welcome the exclusion of single employer DC trust arrangements from these requirements.

37. The PMI is strongly opposed to the proposals in Clause 38, Subsection (12), new section 28C which give the Secretary of State the power to set a percentage of UK private assets that are held by a DC mega fund including overriding any conflict with a trust deed or rules. Whilst there are some minor checks and balances in the drafting, namely a sunset clause dated 31 December 2035, this provision sets a dangerous precedence for Government interference in the fiduciary duty of trustees to act in members' best financial interests.

38. We have additional concerns regarding the power in the Bill:

    a. The criteria and thresholds at which the power might be exercised (i.e. voluntary efforts such as Mansion House Accord fail) are vague and create real uncertainty for those setting long-term investment strategies

    b. The lack of a safe harbour for trustees and/or providers who may be forced to invest against members interests

    c. The risk that the very existence of the power with a 'deadline' of 2025 creates herding behaviour, leading to homogenised investment strategies driving up the costs and therefore reducing the value of private assets with the secondary real risk of market distortion and an increase in systemic risks, especially if schemes are pushed en masse into illiquid or volatile assets.

    d. The lack of appropriate investment opportunities and vehicles in the market. There needs to be a healthy supply of appropriate, high quality investment opportunities for schemes as there is a real risk at present that the supply side of the market is not large enough to enable the sector to meet the commitments in the Mansion House Accord, increasing the costs of such investments (and reducing the value) and the chance that the power will be used.

39. We would argue that this provision has no place in this Bill and should be removed. If it remains, additional safeguards, such as safe harbours, clear exemptions, notice periods and transitional protections need to be placed on the face of the Bill.

Defined contribution – Guided Retirement

40. As we shift from savers relying on DB to DC provision (transferring the risk from the employer to the saver) and automatic enrolment leads to a proliferation of multiple pots across trust and contract-based provision the retirement decisions of pension savers become increasingly complex. We know from consumer research that people find these decisions incredibly challenging and they struggle to access the guidance provided and/or see the value in financial advice leaving them unsupported and in some cases unwilling to make decisions. This is an important policy area as arguably all the good work put into accumulation could be for nothing if members are not supported to make better decisions into and through retirement.

41. The PMI therefore supports the measures in the Bill that require schemes to offer or facilitate decumulation solutions, with default pathways for members not making active choices. We also support, in principle, the focus on these pathways providing an income in retirement.

42. However we do have some issues with the scope and timescales for these measures and the lack of regulatory alignment with adjacent initiatives such as targeted support.

43. At present these new requirements will come into force in 2027/28, in advance of the DC mega fund deadline which means that schemes that may not meet the new scale requirements will be forced to go to the cost and trouble of setting up Guided Retirement options, only to scrap these two years later. Master Trusts will also be required to provide Guided Retirement a full year before GPPs. Contract-based schemes can 'opt-in' to targeted support from 2026 but no one is required to provide it and it does not, at present apply to trust-based arrangements leaving savers with very patchy coverage when it comes to additional support regarding savings. Finally, we still don't know when the MoneyHelper Dashboard will go live. Putting in place mechanisms to support people with expanded guidance and default them if they don't make a decision is probably best left until that individual stands a much greater chance of being able to easily see their entire retirement provision in one place.

44. Whilst we appreciate the Government's desire to bring in retirement support for savers as soon as possible, doing so in advance of DC mega funds and small pot consolidation, and possibly even Pensions Dashboards, increases the risk that (a) schemes are making guided retirement decisions based on an increasingly partial view of that pension savers overall retirement savings and (b) that savers are subject to an increasingly complex web of support (or lack thereof) and default solutions that don't reflect the vast majority of their savings. We would argue that it would be much more effective to implement Guided Retirement once you have implemented scale and small pot consolidation. The Government should also actively consider mandating targeted support across trust and contract-based provision.

45. There are some additional points the legislation and regulation need to consider:

a. The regulations need to consider the extent to which they will need to flex as the retirement product market evolves, for example annuities that can be unwound.

b. Should the regulations allow for trustees to default people into a solution they cannot get out of then some form of safe harbour will be required.

Additional provisions

The Pensions Ombudsman

46. We welcome the provisions in the Bill to re-establish the legal standing of the Pensions Ombudsman to enforce determinations in pension overpayment cases without needing a county court order.

Pension Protection Fund and Financial Assistance Scheme

47. We also welcome the measures in the Bill to:

    a. extend the definition of terminal illness used for the PPF and FAS from a life expectancy of six months or less to a life expectancy of 12 months or less.

    b. remove restrictions that prevent the PPF from reducing its annual levy.

    c. enable the government-backed pensions dashboard service, provided by the Money and Pensions Service, to display the PPF and FAS information.

48. These are sensible tweaks to the legislation to better support members and grant the PPF more flexibility about how it varies the annual levy. The reinstatement of the PPF administration levy invoices has come somewhat out of the blue, particularly in light of the 2022 review which recommended its abolition and the subsequent commitments to review and engage on future changes. This unexpected reversal risks undermining confidence in the reform process and places an avoidable administrative and financial burden on schemes. We urge the Government to implement the outstanding recommendation of the 2022 review and abolish the administration levy in full, aligning policy with the principles of proportionality, transparency, and stakeholder engagement.