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Discussion paper on key elements of the Scale Policy

The PMI's response

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Introduction

The Pensions Management Institute (PMI) welcomes the opportunity to respond to the Department for Work and Pensions' discussion paper on the key elements of the Scale Policy.

The PMI supports the underlying principle of the Scale Policy. Larger pension schemes and default arrangements are more likely to be able to deliver better member outcomes through economies of scale, greater investment capability, stronger governance and access to investment opportunities that may not be available to smaller schemes.

The PMI supports the principle of consolidation where it can deliver better value and outcomes for savers. However, scale and consolidation should not be regarded as ends in themselves. Consolidation can involve costs, resource requirements and risks, and the benefits of scale need to be demonstrated through better member outcomes.

We therefore support the policy direction established by the Pension Schemes Act 2026, including the requirement for relevant DC multi-employer schemes to have a Main Scale Default Arrangement (MSDA) of at least £25 billion from 2030, or to enter an appropriate transition pathway towards £25 billion by 2035.

The PMI still considers that £10 billion is sufficient to deliver many of the benefits associated with scale and therefore believes that the £25 billion threshold established in the legislation is ambitious. However, our focus in responding to this discussion paper is on ensuring that the detailed regulations deliver the intended benefits of scale without creating unnecessary costs, constraining appropriate investment strategies or inadvertently bringing arrangements within scope that were not intended to be captured.

We particularly welcome the Government's recognition that how scale is delivered matters. Genuine scale should improve member outcomes rather than simply result in the aggregation of assets for regulatory purposes.

Main Scale Default Arrangement

The PMI supports the principle that scale should be assessed at the default arrangement level rather than simply by reference to the aggregate assets of a scheme.

We agree that this provides a stronger link between the scale requirement and the potential benefits to members, particularly in relation to investment capability, bargaining power, expertise and costs. We also recognise the Government's rationale that strategic investment decisions are made at arrangement level and that fragmented assets may not deliver the full benefits of scale.

However, the regulations should recognise that schemes can operate more than one default arrangement for legitimate reasons. The existence of multiple defaults should not, in itself, be treated as evidence that a scheme is failing to achieve meaningful scale.

The PMI therefore supports a proportionate approach to determining which assets can contribute towards the MSDA. In particular, consideration should be given to assets held in other default or self-select arrangements where those assets are invested through the same underlying investment strategy or investment building blocks and therefore contribute materially to the investment scale available to members.

The Government's discussion paper specifically recognises the possibility of including assets from bespoke default arrangements or self-select arrangements which use the same building-block funds as the MSDA. We encourage DWP to explore this further. A narrow definition could otherwise create artificial distinctions between assets which, economically and operationally, already benefit from the same investment scale.

We support the use of assets under management (AUM) as the basis for measuring the threshold, provided that the regulations establish a clear and consistent methodology. It will be important that the methodology is sufficiently straightforward to avoid unnecessary administrative burdens and differences in interpretation between schemes. We also believe it would be proportionate to apply a degree of flexibility where values are adversely affected by factors such as significant market corrections. Because valuations would normally occur as at a specific effective date, results could be distorted by short-term market conditions. In such cases, it would be appropriate to allow a temporary grace period, with the manager required to outline the steps it will take to restore the value above the threshold within a set period.

Common Investment Strategy
The PMI recognises the rationale for requiring assets within an MSDA to be managed under a Common Investment Strategy (CIS). If assets are to be aggregated for the purpose of demonstrating scale, there should be a meaningful relationship between that aggregation and the investment benefits which scale is intended to deliver.

However, we have significant concerns about the Government's current proposal that the only permitted variation within a CIS should be variation by age.

The discussion paper proposes that members' assets should generally be allocated in the same proportions to the same investments, with variation by age permitted to accommodate lifestyling and target-date strategies. DWP is specifically seeking views on whether this restriction would create challenges and whether additional factors should be permitted.

The PMI believes that the regulations should provide greater flexibility.

Investment strategies may legitimately differ for reasons other than age. Differences may arise from member characteristics, risk appetite, retirement objectives, scheme design, the characteristics of particular membership groups or other factors which trustees and investment professionals consider relevant to achieving appropriate member outcomes.

A rigid requirement for all members' assets to be invested in the same proportions except solely by age could constrain schemes' ability to respond appropriately to these differences. It could also create a risk that schemes are required to change investment strategies which are appropriate for their membership simply in order to satisfy an overly prescriptive definition of a CIS.

The PMI therefore recommends that DWP should define the CIS by reference to the substance of the investment strategy and the benefits of scale being achieved, rather than prescribing a single investment allocation.

We would support additional permitted variations where a scheme can demonstrate that:

- there is a clear rationale linked to member outcomes;
- the different approaches remain capable of benefiting from the investment scale of the MSDA;
- the differences are supported by appropriate governance and investment expertise; and
- the benefits of the different approaches outweigh any reduction in the benefits arising from commonality.

For permitted variations to operate consistently, the regulations or accompanying guidance should set out the evidence that schemes will be expected to provide. In our view, this should include a documented rationale for the variation, an assessment of expected member-outcome benefits, evidence that the relevant assets continue to share material investment scale with the MSDA, and confirmation that the variation has been considered through appropriate governance. This would help avoid inconsistent interpretation of concepts such as a clear rationale or demonstrable benefits of scale, while still allowing schemes flexibility to reflect genuine differences in member needs.

This approach would retain the principle that assets within an MSDA should genuinely benefit from scale while avoiding a regulatory framework that could unnecessarily restrict investment innovation or appropriate differentiation.

The PMI believes that scale should facilitate better investment rather than dictate a single investment strategy. Trustees and other scheme decision-makers should retain sufficient flexibility to fulfil their fiduciary and other legal duties to members.

This is particularly important as DC investment continues to develop. The regulatory framework should not inadvertently favour a particular investment model or make it more difficult for schemes to develop strategies that reflect the needs of their membership.

The PMI therefore recommends that DWP consider allowing additional forms of variation within a CIS where these can be justified by reference to member outcomes and where the benefits of scale remain demonstrable.

Connections between schemes

The PMI welcomes the ability for connected Master Trusts and GPPs within the same corporate group to combine their assets for the purposes of the MSDA.

This is a pragmatic approach which recognises that providers may operate more than one workplace pension arrangement and that genuine economic and investment benefits of scale can exist across those arrangements. The discussion paper confirms that the Government intends to permit connected Master Trusts and GPPs to share an MSDA where they are within the same corporate group and the assets are managed under the same CIS.

However, the definition of a "connection" will need to be sufficiently clear and flexible to reflect the different structures through which Master Trusts and GPPs operate. We would encourage the Government to avoid relying solely on a narrow legal definition of common control where this could exclude arrangements which are operationally and economically connected and which are capable of delivering genuine investment scale.

There may also be practical challenges where a provider operates both a Master Trust and a GPP. These may include differences in legal structure, trustee and provider responsibilities, decision-making authority, regulatory permissions, member communications, data and reporting systems, investment oversight and accountability for any shared CIS. The regulations should therefore make clear how these arrangements can be aggregated and how investment governance responsibilities should operate where assets from different schemes form part of a single MSDA.

The PMI also encourages DWP to carefully consider the regulatory consequences where a provider has relationships with both The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA).

As we have previously noted, a transition pathway could potentially require an entity to engage with both regulators where it operates both a Master Trust and a GPP. There is a risk that this could result in duplicated processes, additional administrative costs or inconsistent regulatory expectations.

The discussion paper recognises the need to consider the relationship between the funder or strategist of a Master Trust and the entity acting as provider of a GPP. We therefore recommend that DWP, TPR and the FCA establish a coordinated approach to assessing transition plans and the operation of shared MSDAs.

Where the same corporate group operates a Master Trust and a GPP, there should, wherever possible, be a single coordinated assessment of the group's approach to scale. Providers should not be required to make substantially identical submissions to two regulators or face potentially different regulatory expectations in respect of arrangements that form part of the same overall investment strategy.

Scope and exemptions

The PMI agrees that certain multi-employer arrangements should be outside the Scale Policy where the nature or purpose of the arrangement means that applying the scale requirement would not deliver the intended benefits.

In particular, we support the exclusion of:

- CDC schemes;
- schemes or arrangements established to meet the needs of a protected characteristic or other clearly defined membership need;
- appropriate hybrid schemes with closed employer groups; and
- single-employer DC trust arrangements.

We remain concerned, however, that the drafting of the legislation may capture some arrangements which were not intended to fall within the policy, including certain schemes or arrangements involving guaranteed investment products, with-profits arrangements, legacy insurance-based defaults, closed default arrangements, hybrid structures and specialist arrangements designed to serve a defined membership need.

We therefore encourage DWP to use the regulations and associated guidance to provide greater clarity on scope and ensure that the Scale Policy applies only where it is capable of delivering the intended benefits.

In particular, schemes should not be required to undertake costly restructuring or consolidation simply to comply with a scale test where the arrangement is not capable of delivering the policy objective in practice, for example because the relevant benefits are guaranteed, pooled through an insurance structure or otherwise not dependent on the investment scale of a default arrangement.

We also welcome the Government's intention to retain flexibility for new entrants to the market and to consider the potential effect of consolidation on innovation. The regulatory framework should not inadvertently discourage innovative product design where that innovation has the potential to improve member outcomes.

Transition pathway

The PMI supports the availability of a transition pathway for schemes which are not yet able to meet the £25 billion threshold but are demonstrably on a credible trajectory towards doing so by 2035.

We agree that schemes seeking to use the pathway should be required to provide appropriate evidence and a transition plan to the relevant regulator.

However, the process should be proportionate and should recognise that asset growth, employer acquisition and consolidation cannot always be predicted with precision over a nine-year period.

A transition plan should therefore demonstrate a credible strategy and reasonable assumptions rather than become an overly prescriptive forecast against which schemes are judged mechanically. A credible strategy would be one that is supported by clear governance, identifiable sources of expected growth, realistic assumptions about consolidation or employer acquisition, and evidence that the provider has the operational and investment capability to deliver the plan. Reasonable assumptions should be evidence-based, stress-tested where appropriate, and capable of being explained to the relevant regulator.

The PMI also recommends that the assessment of transition plans should take account of the overall strategy being pursued by a scheme or provider, including planned consolidation, employer growth, investment performance and other relevant factors.

Regulation must recognise the distinct circumstances of Master Trusts and GPPs, but it also needs coordination. Where a corporate group operates both, DWP, TPR and the FCA should ensure providers are not required to make substantially identical submissions or face inconsistent decisions. A streamlined, joint process is essential to avoid duplication and unnecessary burden.

Consolidation and member outcomes

The PMI supports consolidation where it is capable of delivering better member outcomes. However, consolidation should not be viewed as an end in itself.

As the PMI has previously highlighted, larger funds are more likely to benefit from economies of scale and have greater opportunities to access sophisticated investment strategies and investment opportunities. At the same time, consolidation can involve both tangible and intangible costs, place significant demands on the skills and resources available to schemes and providers, create challenges in communicating changes to members, and increase concentration and systemic risks.

The detailed Scale regulations should therefore focus on whether genuine benefits of scale are being achieved rather than simply whether assets have been aggregated.
In particular, the Government should continue to recognise that scale is a means of improving member outcomes, not an outcome in itself.

This distinction is particularly important when considering the CIS. A requirement for greater commonality should not be allowed to override an investment strategy which is appropriate for members merely because it does not fit within an overly narrow regulatory definition of common investment.

The PMI believes that the success of the Scale Policy should ultimately be assessed by whether it results in better member outcomes through lower costs, stronger governance, greater investment capability and appropriate investment strategies.

Regulatory coordination and implementation

The PMI recommends that DWP give further consideration to how the Scale Policy will

operate across the trust-based and contract-based markets.
In particular, where a corporate group operates both a Master Trust and a GPP, there should be clear alignment between the expectations of TPR and the FCA.

A coordinated approach would reduce unnecessary administrative burdens and provide greater certainty to providers and schemes. It would also reduce the risk that the same underlying investment strategy or transition plan is assessed differently depending on which regulatory framework is being applied.
The PMI would welcome further industry engagement on this issue as the regulations are developed.

Conclusion

The PMI supports the Government's objective of increasing scale in the DC market and recognises the potential benefits this can deliver for pension savers.

We support the principle of the scale requirement and the availability of a transition pathway to 2035. We also support the ability of appropriately connected schemes to aggregate assets where this delivers genuine investment scale.

Our principal concern is that the detailed regulations should not become unnecessarily prescriptive.

In particular, we recommend that:

1. The definition of the MSDA should be sufficiently flexible to recognise assets in other arrangements where they genuinely benefit from the same investment scale and investment building blocks.
2. The CIS definition should allow greater flexibility than variation by age alone. Schemes should be able to accommodate legitimate differences in investment strategy where these are justified by member outcomes and the benefits of scale remain demonstrable.
3. Scale should remain a means to better member outcomes, rather than an end in itself. Consolidation and aggregation should only be pursued where they are capable of delivering genuine benefits to members.
4. The scope of the requirements should be clarified, including the treatment of arrangements involving guaranteed investment products, with-profits arrangements and other arrangements which may not have been intended to fall within the policy.
5. The transition pathway should be proportionate and practical, recognising that asset growth and consolidation cannot be forecast with complete certainty over the period to 2035.
6. DWP, TPR and the FCA should establish a coordinated approach where providers operate both Master Trusts and GPPs, avoiding duplication and inconsistent regulatory expectations.

Ultimately, the PMI believes that the Scale Policy should facilitate genuine economies of scale, investment capability and good governance while preserving sufficient flexibility for trustees, providers and investment professionals to act in members' best interests.

A successful Scale Policy should not simply produce fewer and larger schemes. It should produce schemes which are better able to deliver good member outcomes.