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Consultation Response

Pension and Investment Review: Unlocking the UK Pensions Market for Growth

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CONTENTS

1 INTRODUCTION

1.1 Executive Summary

Although we have sought to answer the specific questions posed in this consultation, we feel it is necessary to provide an overarching comment on the proposals themselves. This is primarily because the government's plans for reforming the Defined Contribution (DC) pensions market appear to conflate two fundamentally different models of consolidation. These models carry vastly different implications for the structure and operation of the pensions market, member outcomes, and the broader UK economy

It is critical to disentangle these approaches to fully understand their respective impacts. Without this clarity, there is a risk that the proposals may fail to achieve their stated objectives or, worse, inadvertently undermine trust in the pension system and compromise the financial security of members. A clear articulation of the intended outcomes and mechanisms behind these reforms is essential to fostering informed debate and ensuring that the long-term interests of pension savers are prioritised.

The first model is a **mandated consolidation approach** driven by enforcing minimum thresholds for assets under management (AUM) in pension schemes. This model accelerates consolidation by regulatory fiat, potentially reducing the market to just a handful of dominant players offering broadly similar default products in a relatively short space of time. While this approach achieves scale rapidly, it risks stifling competition, narrowing consumer choice, and homogenizing investment strategies. The resulting lack of differentiation also calls into question the value of frameworks like Value for Money (VfM) and even the need for independent oversight of the consolidation of the process, as ultimately there would be little meaningful choice between providers.

The second model is a **value-driven, organic consolidation approach**, which allows market forces—shaped by employers, advisers, and consumer choices—to gradually push poor-performing schemes out of the market. This approach inherently takes longer but places member outcomes and scheme value at the centre of decision-making. It incentivizes competition, innovation, and transparency, fostering a healthier market where consolidation happens as a result of demonstrable improvements in value rather than regulatory compulsion. This model aligns better with the principles of a free market and the long-term sustainability of pension investments.

1.1.1 Mandated consolidation – benefits and challenges

The mandated consolidation approach offers several tangible benefits, particularly in achieving economies of scale. By pooling larger volumes of assets, providers can reduce per-member costs and unlock investment opportunities in illiquid asset classes such as private equity and infrastructure. This enables diversification and potentially improved risk-adjusted returns for members (although this is by no means guaranteed, especially when considering the impact of higher costs of alternative investments over very long time horizons). Furthermore, market simplification through fewer, larger schemes could streamline governance and oversight processes, reducing administrative complexity for providers, trustees and regulators alike. This approach also has the potential to address pricing inequities, ensuring that employees of smaller employers no longer face high charges compared to those at larger firms. Additionally, consolidating schemes can simplify decision-making for employers and savers, making the pensions market easier to navigate and increasing overall efficiency.

Despite these benefits, the mandated consolidation approach carries significant challenges. Firstly, we are confused as to why this consultation references Value for Money Frameworks, the role of employers in fund selection, and the need for consolidation to be approved by independent experts. Under the proposed approach none of these considerations seem that relevant to us since the resulting homogenised market would not be differentiated enough to require that these sorts of frameworks or expertise be applied to the market in the long-run (indeed it could be argued that the benefit of mandated consolidation would be the stripping away of some of both the current and proposed regulatory structures/costs that have been put in place to support a more value-driven consolidation approach).

Other challenges of the mandated consolidation approach include a significant reduction in competitive forces, creating an oligopolistic market where a few dominant providers face limited pressure to innovate or improve service quality (a challenge often seen in other highly regulated 'utility'-type markets such as Railways, Energy and Water). Such a homogenised landscape could stifle diversity in investment strategies, potentially disadvantaging savers/employers with specific needs. In addition, as scheme sizes grow, their returns tend to converge with overall market performance. This is because as pension scheme assets constitute an increasingly significant portion of the market, their ability to achieve 'outperformance' diminishes—they essentially become the market. Larger schemes could also introduce systemic risks; their reliance on standardised investment strategies increases market vulnerabilities and their sheer size can create market distortions as the market impact of each investment decision becomes amplified[1].

Operationally, forcing consolidation within tight timelines also imposes substantial administrative, legal, and governance burdens, which may overwhelm the industry's capacity. Finally, legal and administrative hurdles, particularly in the challenges involved in transferring members of legacy schemes with unique features or guarantees, could lead to member detriment and provoke legal challenges. These challenges make the mandated consolidation approach a high-risk strategy that requires careful consideration.

1.1.2 Value-driven consolidation – benefits and challenges

The value-driven consolidation approach prioritises member outcomes by fostering competition and innovation among providers. It encourages schemes to compete on governance quality, investment performance, and cost efficiency, ensuring that savers benefit from better-managed funds. This approach also retains diversity in the market both in terms of supporting a wider range of investment fund holdings and a wider range of investment strategies (reducing the market distortions by mega asset pools with similar investment approaches all moving together). It also allows niche offerings such as ethical, sustainable or Sharia-compliant funds to thrive and meet specific member needs. By allowing consolidation to occur gradually and naturally, it minimizes systemic disruptions, enabling smaller schemes to transition in a way that prioritizes member interests. Furthermore, this model maintains employer and adviser engagement, ensuring that decision-making remains aligned with the needs of employees. Value-driven consolidation supports the long-term sustainability of the

[1] For an example of how large asset pools executing large trades in order to shift their allocations can impact markets one only has to look at the growth of index funds (often backed by pension assets, amongst other) into larger and larger constituents of the markets they operate in. Amongst a range of other issues the impact of these large index asset pools executing trades during their rebalancing processes have led to amplified volatility and arbitrage opportunities. They have also undermined the efficiency of markets as capital flows follow index inclusion rather than fundamentals. Creating pension megafunds risks doubling down on these sorts of risks especially as the overall DC investment pool grows and becomes a more and more dominant part of the index

pensions market, complementing regulatory initiatives such as the Value for Money framework and the pensions dashboard to create a cohesive and resilient system.

While focusing on value provides clear advantages, the slower pace of market-driven consolidation poses challenges. The absence of regulatory pressures means smaller, less efficient schemes may persist for longer, delaying the full realization of investment pooling, cost savings and administrative efficiencies associated with larger asset pools. Ensuring meaningful competition in a fragmented market also requires a more complex and nuanced approach to regulatory oversight, potentially increasing regulatory costs and the complexity of enforcement. Additionally, smaller schemes may struggle to match the investment opportunities and governance standards of their larger counterparts, leading to inconsistent member outcomes (although again scale can also lock larger asset pools out of investment opportunities smaller more nimble investors can take advantage of). Resistance from fiduciaries, employers and providers accustomed to the status quo may further hinder the adoption of innovative practices and the broader transition to higher-value (but also higher cost) models. These challenges underscore the need for robust regulatory frameworks and strategic incentives to accelerate the natural consolidation process without compromising its member-focused objectives.

1.1.3 The way forward

We are not naïve enough to believe that making this argument will be sufficient to deter the government from a path to which it already appears largely committed, but we do think that there needs be a clear distinction and decision made about which type of consolidation it is pursing and a clearer acknowledgement that it cannot walk down both these roads simultaneously. By clearly distinguishing between these two approaches, we believe the government can avoid conflating incompatible objectives and ensure that its reforms are both pragmatic and effective. Our position is to strongly recommend value-driven consolidation, which would prioritise a framework that balances the need for scale with the imperative of delivering value and safeguarding the interests of savers and encourages innovation within the market.

If our assumption is correct, however, and the government is set on consolidation driven by mandation then it needs to be aware that this approach may inadvertently exacerbate risks inherent in a market that is not yet mature enough to support the scale and complexity required for large, consolidated players. The capacity to manage private equity exposure and other complex investments, for example, requires time for the market to develop appropriate expertise, infrastructure and, perhaps most importantly, capacity. Pushing for rapid consolidation without addressing these underlying issues not only damage member outcomes, but also fail to meet the stated goal of boosting UK economic growth through pension investment (since making bad investments could have significant and long-lasting negative impacts on growth).

Ultimately if the government is looking for a way to balance achieving the benefits of mandated consolidation while minimising the impacts on member outcomes we would highly recommend limiting its approach to schemes created after the introduction of Automatic Enrolment (AE) in 2012. These schemes already share a strong degree of homogeneity and operate within a regulatory framework that already supports scale delivery (it is also where the great majority of future pension contributions are likely to flow). Excluding legacy schemes from this process would mitigate the significant complexities and risks associated with transferring older, more varied arrangements, many of which have unique features and guarantees that are not easily replicable in new structures.

As a final point, we note that despite its title, this consultation fails to present evidence of how consolidating pension assets would drive UK economic growth. As stated earlier, investment alone does not guarantee growth, and investments in public projects primarily aimed at delivering social goods often fail to generate strong returns for investors.

Certain sections of the consultation appear to reverse decades of government and regulatory focus on costs and margins in pensions—often, we acknowledge, at the expense of returns— not merely to return to a more balanced cost-investment focus, but rather to facilitate private equity investment in government-backed economic and infrastructure initiatives. These projects inherently involve higher costs and risks without guaranteeing improved returns. If the ultimate goal is to direct pension assets toward addressing the government's economic and infrastructure funding needs without sufficient consideration of how this aligns with members' investment return requirements, it raises important questions about the alignment of this policy with its stated objective of improving member outcomes.

Such an approach risks undermining trust in the pension system and could lead to poorer retirement savings outcomes, particularly if investments are directed toward projects that fail to deliver competitive returns. Pension funds have a fiduciary duty to prioritize members' financial interests, and any initiative that appears to subordinate these interests to broader fiscal objectives must be transparently justified and rigorously scrutinised to protect the long-term security and value of members' savings.

2 CONSULTATION RESPONSE

2.1 Achieving scale in the Defined Contribution market

2.1.1 Maximum number of default funds

2.1.1.1 **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**

It is important to clarify that the term "default fund" is often a misnomer when applied to the lifestyle strategies underpinning most auto-enrolment pension offerings. These default strategies typically transition savers through a series of underlying funds—such as equity, multi-asset, bond, or cash funds—based on risk profile and proximity to retirement. While a saver may be fully invested in a single fund during specific phases of accumulation (e.g., 100% in equities at the start), calling these strategies "default funds" inaccurately suggests stability of holdings throughout the journey. In reality, the governance of default strategies (e.g., lifestyling and asset allocation) is often distinct from the governance of the underlying fund components, which may be partially or wholly replaced over time.

While limiting the number of default strategies may have some limited benefits, we believe that the consolidation that the government is actually targeting is a reduction in the overall number of pension schemes that providers are currently supporting. We have listed some of the benefits this approach could bring in this section of the consultation but overall we think the approach the government is proposing to take is a blunt instrument that on balance seems more likely to damage member outcomes than to enhance them. Indeed as we will cover later in this consultation response we believe the government's own evidence fails to make a strong case if its main objective is improving outcomes for members.

Restricting providers to a limited number of pension schemes could address inefficiencies and fragmentation within the pensions market. Fewer pension schemes could simplify governance structures and streamline reporting processes for Independent Governance Committees (IGCs) and master trust trustees, who currently manage an array of complex strategies. Moreover, reducing the number of schemes would likely result in larger asset pools, allowing providers to achieve economies of scale. This, in turn, could lower fund costs and enable greater diversification into asset classes such as private equity or infrastructure, where illiquidity risks are better managed at scale.

It is worth noting, however, that this asset pooling and cost efficiencies could also be achieved through modern platform technologies, which allow a single pool of assets to support multiple schemes and their default strategies. While reducing schemes potentially lowers the administrative burden, technology enables providers to maintain flexibility without compromising scale.

Another potential benefit of limiting the number of schemes is the reduction of differential pricing based on employer size. Currently, smaller employers and their employees often incur higher charges despite receiving similar investment outcomes to those at larger employers. Restricting the number of default strategies could promote more equitable pricing structures. However, this outcome is not guaranteed unless accompanied by further regulation to prevent pricing variations across employers for the same strategy.

While these benefits are clear, maintaining flexibility remains essential. Exceptions should be allowed for employers or schemes with specific requirements, such as bespoke strategies, asset-exclusion preferences such as for ethical or sustainable investments, or Sharia-compliant funds. These accommodations would ensure that diverse saver needs are met without undermining the broader goals of simplification and scale.

Governance considerations also warrant attention. A reduction in default strategies could strengthen trustee oversight by focusing attention on fewer, better-structured approaches. It could simplify member communications and allow more time for investment fund selection. However, care must be taken to avoid stifling competition or innovation, which are essential for the ongoing evolution of the pensions market.

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

2.1.2.1 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?

The phrasing of this question introduces ambiguity. If the intention is to apply minimum size requirements to the underlying investment funds that make up the default strategies of pension schemes, the impact may be limited. Many of these funds already include contributions from a wide range of institutional and retail investors from around the world, meaning their total size could already exceed the minimum thresholds—particularly in the index fund space. Conversely, setting high minimum size requirements could exclude many venture capital and smaller private equity funds, especially those focused on SME investments. This would be counterproductive to the government's stated objective of channelling pension capital into such areas to stimulate economic growth.

If the restrictions were instead applied at the pension scheme level (i.e. GPP contract or master trust scheme level), the impact could be more pronounced. Consolidating assets into fewer, larger schemes could enable providers to access economies of scale, reducing administrative and investment costs. This, in turn, might facilitate more competitive pricing for employers—particularly smaller employers, who historically face higher charges due to limited bargaining power.

However, the assumption that larger asset pools necessarily lead to better outcomes warrants scrutiny. While scale can reduce costs, maintaining a diverse and productive investment portfolio depends heavily on the quality of governance and the robustness of the investment strategy. Introducing illiquid asset classes, such as private equity or venture capital, adds complexity to portfolio management and often incurs higher costs.

For example, the government's own analysis indicates that including private equity in model portfolios resulted in only a modest 2% increase in the value of the final pot compared to the baseline (£264k vs £259k). Given this analysis is almost certainly based on gross returns and factoring in the elevated costs typically associated with private equity, net returns could potentially underperform the baseline, eroding member outcomes.

Historical examples, such as Railpen in 2015, illustrate the risks associated with high-cost illiquid investments. Despite achieving outperformance in their alternatives portfolio, Railpen's analysis revealed that nearly all the gains were consumed by fees, prompting a significant reduction in their alternatives holdings. This underscores

that even well-governed schemes are not immune to the adverse effects of high costs on long-term member outcomes.

From a pricing perspective, the implications of these changes also deserve careful consideration. If employers are unable to select strategies tailored to their workforce's needs, their capacity to negotiate favourable terms could diminish. This might lead to reduced employer engagement with the pension process, undermining their role in securing the best possible arrangements for employees. Such disengagement could have knock-on effects for member outcomes, as engaged employers often drive improvements in scheme quality and value.

Ultimately, while the goal of simplifying and consolidating pension schemes holds merit, it must be balanced against the risks of reduced flexibility, increased costs, and diminished employer involvement. A measured approach that accommodates exceptions for tailored or specialised strategies—such as those focused on Sharia-compliance or SME investments—may help mitigate these concerns while advancing the broader aims of scale and efficiency

2.1.2.2 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?

Throughout this consultation, there is a constant refrain that increasing asset pool size and diversifying assets will lead to "better outcomes for members," but no clear case has been made that members are currently receiving poor outcomes. Even the government's own analysis, as presented in its "*Pension fund investment and the UK economy*" report (November 2024) (Figure 10), shows that the baseline portfolio outperforms all other scenarios (including those containing greater allocations to private equity) when historical performance returns are projected into the future. While past performance is no predictor of future results, this at least suggests that current DC allocations have outperformed the alternatives being proposed.

The argument that greater scale leads to better performance is also not borne out by the government analysis. Figure 11 shows that three of the four largest funds produced below-average returns (4-7%) compared to the 8-12% range achieved by the four smallest funds in the analysis. Although the text dismisses this finding as being based on a "small sample of providers" (22 in total), no similar qualification is made in other parts of the analysis, such as when comparing UK DC exposure to international comparators using only two countries (Australia and New Zealand).

These examples demonstrate that, based on its own evidence, the government has not yet made a compelling case for setting high AUM minimum thresholds to improve member outcomes. The evidence suggests that (1) larger funds have underperformed smaller funds over the past five years, and (2) had DC strategies been exposed to significant private equity investments over the past few years they are likely to have performed worse, particularly when considering the higher fees associated with private equity investments.

Setting excessively high AUM thresholds risks excluding smaller or niche providers whose smaller size can be advantageous. Smaller funds are better positioned to invest in niche markets without capacity constraints or the risks of moving markets. Notably, pension funds in countries like Australia moved into private assets in their domestic markets not primarily for return-seeking purposes but to diversify and mitigate risks associated with their outsized influence on their home equity markets.

The governance and operational challenges of very large schemes also need to be considered. Larger funds present difficulties for trustees in maintaining effective

oversight and governance. As scale increases, investment strategies often need to diversify further, which can dilute the potential for significant outperformance and make rebalancing portfolios without market impact more challenging.

The ultimate aim should be to promote robust, scalable, and diversified investment strategies that benefit members while allowing sufficient flexibility to accommodate smaller, more nimble, and potentially specialised funds. If the government is committed to setting minimum AUM thresholds, a staggered approach—starting with lower thresholds and gradually increasing them—could help the market transition smoothly. However, such measures would likely still stifle innovation and create an oligopolistic market in the long term**.**

2.1.2.3 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)?

Yes, additional flexibilities should be incorporated to ensure the minimum size of AUM does not unintentionally stifle innovation or create barriers to entry for new and specialised providers. However, establishing any exemption/disapplication scheme is likely to involve significant cost overheads and would need robust governance and likely transparency to prevent litigation or appeals from different providers who have/have not been granted a dispensation. Ultimately this cost would be borne by the member.

Nonetheless discretionary exemptions by regulators could allow for a more balanced approach that mitigates the more negative impacts of a blunt AUM minimum approach. This would enable innovators or niche providers to develop competitive offerings without immediately meeting rigid scale requirements.

Market shocks and economic downturns also need to be factored into the framework. In periods of significant market volatility, temporary exemptions could prevent schemes from being forced into consolidation purely due to short-term fluctuations in asset values. Establishing a clear and transparent process for seeking exemptions during these periods would provide stability and avoid unnecessary disruption to members.

To maintain the integrity of the system, any exemptions or flexibilities should be accompanied by stringent oversight mechanisms. Providers seeking exemptions should be required to demonstrate strong governance, credible growth plans, and a clear pathway to achieving the desired scale within a defined timeframe. This would ensure that flexibility does not undermine the overarching goal of driving efficiency and better outcomes for members.

This could be achieved through the application of the proposed Value for Money framework, although, as we mentioned in our introduction, if the government is set on a course of setting AUM minimums at the levels currently proposed we would question why it is continuing to pursue a value for money approach. As only a small handful of schemes and providers are likely to be able to achieve the minimums suggested in the timeframe - the minimum AUM threshold will be the only ‘value’ metric that counts in any future assessment of scheme viability. In addition, after the market is fully consolidated, the pension schemes that remain are all likely to be deemed too systemically important and ‘too big to fail’, making the VfM framework and its proposals for winding up poorly performing schemes essentially meaningless. As we have previously stated value driven consolidation is a completely different

pathway to consolidation through a government mandated minimum asset pathway – and these two approaches are mutually incompatible.

2.1.3 Implementing a minimum size of AUM at default fund level

2.1.3.1 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?

Again the terminology here needs clarification – we assume this is about reducing the pension schemes (and their default strategies) down to a single scheme, not pooling all assets into a single fund. As previously stated we do not believe a single scheme per provider is likely to be viable but there is certainly a benefit to reducing the current number in order to simplify the administrative burden of the current system. Ironically, though, for a proposal that is couched in terms of improving investment outcomes for members, the biggest benefit that consolidation is likely to bring is a reduction in administration costs for providers (which, if passed onto members, could result in a lowering of costs for them too).

Still if the government cannot be dissuaded from the current course of action then setting targets for reducing pension scheme numbers and achieving incremental minimum AUM would provide a clear roadmap for consolidation and scaling within the pension market. Again as stated in our introduction an even better approach would be to focus this consolidation on just the post-AE introduction schemes since these are already much more homogeneous as a group than a wider group that also contains all the legacy pension structures.

Introducing a phased approach, with clear milestones and a reasonable timeline, would allow providers to adapt their strategies while maintaining focus, at least as far as is possible within a mandated consolidation approach, on member outcomes. Such targets should be supported by independent oversight (from regulators or other bodies) to ensure providers are making genuine progress toward achieving scale and that any members disadvantaged by the introduction of a more homogenised pension system are adequately compensated for the benefits they are being forced to surrender.

2.1.3.2 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?

There are significant barriers and challenges to achieving a minimum size of assets under management (AUM) at the pension scheme/default level by 2030. A primary concern is whether the market has the capacity to absorb the smaller schemes that would need to merge with larger ones. Consolidation processes are complex and time-consuming, often taking up to 18 months or longer for a single scheme, and require substantial legal, governance, and administrative resources. Achieving this scale of consolidation within the proposed timeframe could strain industry capacity, which has never undertaken a project of this magnitude before.

The industry is likely to face capacity constraints in both skills and personnel to handle the consolidation required. Moreover, prioritizing rapid consolidation could divert resources from other critical initiatives, such as the pensions dashboard, the Value for Money (VfM) framework, and advancements in the decumulation space, all of which are vital for improving member outcomes. The time has potentially come for the government to realise that it cannot simply keep piling initiatives one on top of another and acting as if a proposed outcome is analogous to a delivered one. We would strongly recommend the government consider an approach that sees it push

for the full delivery of some of the existing initiatives (such as the VfM framework or concluding on the future shape of the AE decumulation landscape) that it obviously sees as important foundational building blocks and take stock of member outcomes before piling further pressure on the industry to deliver such an ambitious regulatory initiative as mass consolidation what is in reality a very tight timeline.

Smaller providers may also lack the operational readiness to merge efficiently with larger schemes. Limited expertise or infrastructure could create bottlenecks, further delaying the process. Additionally, setting a minimum AUM target would almost immediately render many currently viable schemes unable to meet the threshold within the timeframe. This would create a buyers' market and potentially trigger a "fire sale" as multiple schemes or workplace pension books seek buyers simultaneously. Such conditions could lead to significant value destruction for the existing owners of these schemes.

Another major challenge is the likelihood of legal challenges. A mandated AUM threshold would inevitably disadvantage schemes that are currently sustainable but unable to reach the required levels by 2030, exposing the consolidation process to disputes and delays.

Lastly, a rapid consolidation of the market into a small number of dominant players risks undermining competition and innovation, and indeed there would be a certain irony in having the FCA, whose mandate includes promoting effective competition, oversee such a process. Reduced competitive pressures could stifle innovation and ultimately lead to poorer member outcomes in the long term.

2.1.3.3 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?

The government should consider several exclusions to ensure that any requirements for minimum AUM and limits on default funds do not negatively impact innovation, diversity, or the ability to serve specific member needs. One key exclusion should be for funds that cater to niche or specialised markets, such as Sharia-compliant or ESG-focused funds. These funds often have smaller target audiences and may not achieve the same scale as more mainstream options, but they are critical in ensuring equity and inclusivity in the pension market.

Exemptions should also be considered for new market entrants or innovative schemes that may take time to reach the required AUM threshold. Providing a "glide path" for such schemes, where they are granted temporary exemptions while demonstrating credible growth plans, could encourage competition and allow for the development of new, member-focused solutions without undue regulatory burdens.

Market conditions should also inform exemptions. For example, during periods of significant economic or market volatility, a temporary relaxation of AUM requirements could prevent providers from being forced to consolidate prematurely due to short-term fluctuations. Similarly, schemes facing temporary demographic challenges, such as a sudden increase in member retirements, could benefit from time-limited flexibility to recover scale.

Finally, the government might consider exclusions for schemes that demonstrate exceptional value for money, even if they do not meet the AUM thresholds. For instance, smaller schemes that provide strong governance, low costs, and competitive investment performance should not be penalised solely for their size. Introducing performance-based exemptions would help ensure that member outcomes remain the central focus of these reforms.

By incorporating these exclusions, the government can promote a balanced framework that drives consolidation where appropriate, while preserving diversity, innovation, and fairness in the pension market. This approach would help protect member interests while fostering a resilient and dynamic system.

2.1.4 Impact of these measures

2.1.4.1 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?

The proposed measures to drive scale and consolidation in the Defined Contribution (DC) market raise several risks beyond innovation and competition that must be addressed to ensure member outcomes are not adversely affected.

A key concern is market concentration. Consolidating smaller providers into larger ones risks creating an oligopoly where a few dominant players face limited competitive pressure, potentially leading to a decline in the quality of member services. To mitigate this, the government may need to monitor market concentration levels and encourage new providers offering innovative solutions. However, this approach would ironically reverse the effects of the proposed measures, effectively seeking to reintroduce smaller providers that the current policy aims to eliminate.

Another risk is the erosion of diversity in fund offerings. Consolidation into large asset pools has historically created systemic risks, as demonstrated by the widespread use of the Standard Life GARS Fund as a multi-asset default for numerous DC schemes. This overreliance on a single fund meant that when the GARS Fund underperformed, its issues were transmitted across the market, affecting millions of members and exposing the dangers of homogeneity in investment strategies. Larger, consolidated schemes often gravitate toward standardised, scalable investment options to manage liquidity and capacity constraints. While these strategies may streamline operations, they frequently prioritize operational efficiency over optimizing investment value for members. As a result, systemic risks become amplified, as the failure of a single large fund or strategy can have far-reaching consequences across the market, impacting member outcomes on a broad scale.

There is also the risk of unintended systemic impacts on the broader financial market. Overexposure to specific asset classes or sectors can amplify systemic vulnerabilities, while dominant funds could distort asset pricing through artificial inflation or reduced price discovery. Any failures of such funds could also erode confidence and create contagion effects across markets. Additionally, smaller or niche markets may suffer from reduced investment or heightened volatility due to the outsized influence of large funds.

Operational challenges during the consolidation process also present a risk. Mergers and transitions can be complex, potentially leading to disruptions in member services or unintended administrative errors. Clear regulatory guidelines and sufficient transition periods would help ensure a smoother process (again challenging the very tight timelines that are being proposed).

The cost of consolidation also presents a risk, particularly in DC schemes where members, not employers, bear most of the expenses. The scale of the consolidation envisaged could result in significant costs, which would directly reduce member pension pots.

Finally, investment governance of these asset pools is a significant challenge, particularly as schemes allocate assets to private, illiquid, and specialist markets.

Even large, well-established pension schemes have struggled to govern these investments effectively. For example, nearly a decade ago, Railpen, with $32bn in AUM, divested its hedge fund and private equity investments due to concerns over hidden fees and governance complexities. Chris Hitchen, then CEO of Railpen, noted, "A lot of things that investors are not fully aware of get charged to funds. Sometimes people put their payroll through [as a cost]. I am not saying there is anything illegal here, but the level of detail is very difficult for the end investor to grasp." Similarly, CalPERS and Europe's second-largest public pension fund, PFZW, also reduced their exposure to such investments, with PFZW citing these investors' "often limited concern for society" as a rationale.[2]

The point is that these were large, sophisticated pension schemes that had gradually built their exposures to these investments, supported by governance strategies designed to mitigate such issues. If these institutions struggled to make these investments work for their members, how can the government be confident that pushing smaller, less developed schemes to adopt them rapidly over just a few years will not lead to similar or worse outcomes? Has the culture in the private equity and alternatives industry changed so significantly in the past decade that the government can be assured they have overcome their "often limited concern for society"? If the answer to this is anything less than a confident "yes," shouldn't this be resolved before exposing millions of pension savers to such risks?

2.1.4.2 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?

We think we have covered the answer to this question in some of our answers above but in summary, yes we believe if the government is serious about maintaining both competition and innovation in the pension market post implementation of a minimum AUM model then exceptions would need to be made for smaller schemes offering a particularly innovative approach to pensions/schemes targeting more niche areas of the market.

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

To accelerate the process of market consolidation and scale-building in the Defined Contribution (DC) market, several interventions and regulatory changes may be necessary. These should aim to reduce barriers to consolidation, provide clarity and support for providers, and ensure that member outcomes remain the central focus.

As mentioned in our introduction, the first and most important recommendation would be to focus the consolidation process exclusively on the post-Automatic Enrolment (AE) pension scheme market. These schemes, established after AE's introduction in 2012, are relatively homogeneous in structure, charges, and governance standards compared to legacy schemes. By targeting this segment, the government can streamline the consolidation process, reducing the complexity and risks associated with merging older schemes that often include unique guarantees or bespoke arrangements. Focusing on post-AE schemes would also align consolidation efforts with the segment of the market where scale efficiencies and investment opportunities can be realized most effectively, without the legal and operational challenges of integrating legacy arrangements. This targeted approach would ensure a smoother

[2] UK Railpen pension scheme culls hedge funds (https://www.ft.com/content/eba20504-950a-11e5-8389-7c9ccf83dceb)

transition, mitigate disruption for members, and deliver consolidation benefits in a way that is more manageable and equitable.

Secondly, streamlined processes for mergers and bulk transfers between schemes would be essential. Currently, legal, administrative, and governance challenges can create delays and additional costs in consolidations. Regulators could implement standardised frameworks and guidance for these processes, potentially supported by incentives such as reduced compliance burdens for early adopters of consolidation measures (although it should be noted all of this would take time to develop and not be without significant additional risk). Establishing clear timelines and expectations for providers could also drive more decisive action.

Thirdly, legislative changes to facilitate contractual overrides without member consent, while safeguarding member interests, would be critical. Without this, providers may struggle to consolidate legacy arrangements efficiently. However, these changes must be accompanied by robust safeguards, including independent assessments and transparency requirements, to ensure that transfers are genuinely in members' best interests.

Given that one of the key issues providers have faced in closing legacy arrangements (assuming of course that these remain in scope) is that these often offer better terms than are currently available in the market (e.g., guarantees). The only practical way to transfer members out of some of these contracts without their consent would be to ensure they are properly compensated for the benefits they are losing—such as when moving from a lower-cost arrangement negotiated by an employer in the past to a new 'standardised cost' arrangement. While setting up and administering such a system would be highly complex, it may be the only way to achieve the consolidation proposed in this paper without causing member detriment.

Fourthly, targeted financial or technical support for smaller providers could help them navigate the transition. For instance, government could provide grants or consulting resources to assist in merging operations or meeting scale requirements. This would help ensure that smaller players can participate in the consolidation process without disproportionately high costs.

Finally, public reporting and oversight mechanisms could enhance transparency and accountability. Providers could be required to publish progress reports on meeting AUM targets and reducing default fund numbers. Regulators, in turn, could use this data to monitor the market and intervene where necessary to address bottlenecks or ensure

2.1.5 The role of differential pricing in a consolidated market

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

Moving to a single price for the same default could have several positive impacts, particularly for members, by addressing inequities in pricing. Currently, differential pricing often means smaller employers and their employees pay higher charges for the same default fund compared to larger employers. A single price model would eliminate this disparity, ensuring fairness and consistent value for all members, regardless of their employer's size or negotiating power. This aligns with the principle that savers should not be penalised for working for a smaller employer.

However, this approach could negatively affect employees who currently benefit from lower negotiated charges, as they may end up paying more. From a provider's perspective, higher charges for smaller schemes often reflect their higher per-member administrative costs. A fixed single price would introduce cross-

subsidization, with members of larger schemes effectively subsidizing the costs for those members in smaller schemes.

For employers, removing differential pricing could simplify decision-making when selecting a pension provider, reducing the need to negotiate on price and allowing more focus on other factors like investment performance and service quality. However, it may also reduce employers' perceived influence over pension arrangements, potentially disengaging them from the process.

Providers would experience mixed impacts. While simplifying pricing structures could reduce administrative complexity and improve transparency, it could also limit their ability to differentiate through tailored pricing for large clients, pushing competition toward factors like investment returns or service quality. Smaller providers, lacking economies of scale, might struggle to compete with larger firms offering the lowest single price.

A single price model could also benefit member communication. Standardizing pricing would simplify how pricing impacts are explained to members, making communication clearer and more consistent across the market.

Overall, while a single price model could enhance fairness and transparency, careful implementation is crucial to mitigate potential drawbacks, such as reduced employer engagement and challenges for smaller providers. Measures such as competitive frameworks or exemptions for niche offerings could help address these challenges and ensure the model delivers equitable outcomes.

2.2 Contractual override without consent for contract-based arrangements

2.2.1 Conditions/circumstances for transfers

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

In a world in which consolidation is being driven by mandated minimums we do not see how it can be effectively achieved without mass transfer of members without their consent. Under this approach transfer without consent would be a key feature of process and it would be hard to envisage giving members any significant or meaningful opt out rights. However the government could consider inserting a sunset clause on the right to transfer without consent, as an acknowledgement that this is being undertaken as an extraordinary measure for the purpose of moving the pension industry to where it needs to be and should not be needed in a post-consolidation world.

Under a more value-driven consolidation approach, however, providers should only be permitted to transfer savers to a new arrangement without their consent when it is demonstrably in the best interest of the savers. This includes situations where the existing arrangement is assessed as poor value for money and unlikely to improve within a reasonable timeframe. For example, if an arrangement is rated "red" under the Value for Money (VFM) framework due to high charges, poor investment performance, or inadequate governance, a transfer to a higher-performing scheme should be allowed to ensure savers are not disadvantaged by remaining in a suboptimal arrangement.

Another justifiable circumstance is where the current arrangement is no longer viable, such as when a scheme becomes sub-scale due to market dynamics or member demographic changes. Consolidating these arrangements into larger, better-

resourced schemes can enhance efficiency, reduce costs, and provide access to improved governance and a wider range of investment opportunities.

In addition, legacy schemes with outdated terms, such as high charges or limited investment options, may warrant bulk transfers without consent, particularly where savers are disengaged and unlikely to act on their own. However, safeguards must be in place to ensure that valuable benefits, such as guaranteed annuity rates, are not lost in the process.

These transfers should be subject to stringent safeguards, including independent assessments by trustees, IGCs, or other qualified bodies, to verify that the new arrangement offers clear benefits. Transparent communication with savers is essential, providing them with an opportunity to understand the rationale for the transfer and, where appropriate, opt out. Such measures would balance the need for market consolidation and improved saver outcomes with the protection of individual rights.

Overall, however, we re-iterate that we strongly suspect that even if all of the above cases are addressed, in a consolidation process where the goal was to achieve a handful of schemes that met the mandatoy minimums this would still leave the industry significantly behind the level of consolidation envisaged in this consultation. At that point we suspect that consumers would have to start being transferred without their consent simply in order to meet the government's policy agenda rather than because it was provably in their best interests to be transferred.

2.2.2 Process

2.2.2.1 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?

Yes, we strongly believe an independent expert should play a key role in assessing whether a transfer is appropriate, especially in a value-driven consolidation model. If the government is proposing to allow providers to override a fundamental principle of contract law by enabling transfers without consent, the independence and expertise of the bodies overseeing this process on behalf of members will be critical to ensuring that transfers are evaluated objectively and demonstrably in members' best interests.

IGCs are well-positioned to analyze factors such as investment performance, charges, governance quality, and member outcomes when assessing new arrangements. However, not all IGCs operate with the same level of effectiveness or independence. Some lack the strength or resources to fully evaluate the complexities of a transfer. To address this variability, there should be clear guidelines and minimum standards for IGCs. These should include demonstrating sufficient expertise in evaluating both current and prospective arrangements. Additionally, the potential for conflicts of interest—since IGCs are funded by the providers they oversee—must be addressed. This could involve strengthening independence by greater ringfencing of financing for IGC activities or introducing greater third-party oversight of their activities to enhance impartiality.

Under the mandatory consolidation model a significant issue arises if the independent expert deems a transfer inappropriate because the existing scheme, while failing to meet the minimum AUM standard, offers better outcomes or contains benefits—such as guaranteed annuity rates or favourable historical terms—that cannot be replicated in the proposed scheme meeting the AUM threshold. This

situation risks creating a permanent impasse between the regulatory requirement for minimum scale and the expert's judgment on member outcomes.

Mechanisms such as compensation for the loss of unique benefits or specialised consolidation pathways for legacy schemes with strong historical terms could help address these conflicts, but ultimately members would still end up being forced into arrangements that, while meeting scale requirements, offer diminished value or reduced benefits. Regulators would need to be clear in their guidance to experts and schemes how to balance meeting AUM thresholds with the need to preserve member benefits.

In conclusion, while IGCs are well-suited to undertake assessments, their independence, expertise, and consistency must be rigorously upheld. Complementing their role with external oversight and clear regulatory frameworks will ensure trust in the process and safeguard member outcomes. A flexible approach will help avoid rigid standards that risk disadvantaging members, ensuring the consolidation process maintains both integrity and effectiveness

2.2.2.2 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?

To effectively assess and approve contractual overrides and bulk transfers, enhancements to the role, responsibilities, and powers of Independent Governance Committees (IGCs) will likely be necessary. These changes should aim to strengthen their independence, ensure consistency in decision-making, and equip them with the tools needed to safeguard member interests.

First, IGCs should be required to demonstrate a high degree of independence from the provider. While they are already mandated to act independently, their funding and operational structures often create a perceived or actual conflict of interest. To address this, regulatory changes could include stricter requirements for independent representation on the committee, particularly for the chair, and enhanced transparency in how decisions are made.

Second, IGCs should be provided with clear, standardised criteria for assessing bulk transfers. These criteria should include measurable factors such as the relative costs, investment performance, governance quality, and member benefits of the current and receiving schemes. Providing such a framework would ensure consistency and comparability across the market and reduce the risk of subjectivity in decision-making.

Third, IGCs may require expanded powers to access data and resources necessary for conducting thorough assessments. This includes the ability to commission independent advice or analysis, such as actuarial reviews or cost-benefit studies, and to hold providers accountable for demonstrating that proposed transfers are in the best interests of members. They may also require powers to compel providers to provide adequate funding to ensure they can support these additional responsibilities.

Finally, IGCs should be subject to enhanced regulatory oversight to ensure that their decisions are robust and in line with member interests. Regular reporting and audits of their assessments, as well as periodic reviews by the Financial Conduct Authority (FCA), could provide the accountability needed to maintain trust in their role.

By implementing these changes, IGCs will be better equipped to manage the complexities of contractual overrides and bulk transfers, ensuring that the process

delivers improved outcomes for members while maintaining the integrity of the pension market

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

Employers should have a consultative and informed role in the transfer process, particularly in cases where they remain actively engaged with the pension scheme. As key stakeholders in workplace pension arrangements, employers often have a unique understanding of their workforce's needs and expectations. In the absence of any alternative, they are also potentially better positioned than IGCs to assess whether a transfer is likely to be in their employees best interests - although they too may lack the expertise to do be able to conduct a proper assessment and may suffer from their own conflicts of interest in doing so. On balance, however, we believe their involvement would go some way towards ensuring that decisions around transfers align with broader employment benefits and member interests.

For active schemes, employers should be consulted early in the process and provided with clear, comprehensive information about the rationale for the transfer, the potential benefits, and any implications for members. This would enable them to contribute their perspective and raise concerns, particularly around how the new arrangement might affect current and future employees. Employers could also play a role in helping to communicate the changes to members, leveraging their trusted relationship to ensure clarity and engagement.

In cases involving legacy schemes, where the employer may no longer have a direct relationship with the pension arrangement or its members, their role would naturally be more limited. However, if the employer still exists, they should at least be notified of the proposed changes and given the opportunity to provide input where relevant, such as on future contributions or investment preferences.

Ultimately, the degree of employer involvement should reflect their ongoing relationship with the scheme and their ability to add value to the decision-making process. While the final decision should rest with independent governance bodies or trustees to ensure impartiality, incorporating employer input can enhance transparency, support alignment with workforce goals, and foster trust in the transfer process.

With all this in mind, however, we believe that many employers may back away from being involved in a process so fraught with the potential liability issues. Employers may be hesitant to take on a significant role in overseeing transfers due to the potential liability associated with such involvement. If a transfer were later deemed not to be in the members' best interest, employers could face reputational damage or even legal challenges from members.

Given that employers are not typically pension experts and rely on providers and independent governance bodies for decisions about pension arrangements, many may prefer to limit their involvement to avoid this risk. Their primary focus is often on providing access to a compliant and well-managed pension scheme, rather than taking on fiduciary responsibilities. As such, any framework involving employers in the transfer process must clearly delineate their role and limit their liability, ensuring they are not held accountable for decisions that are ultimately outside their expertise or control.

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

We are not legal experts, but we suspect it would very much depend on how the existing contract between the employer and provider is structured and on precisely how the 'transfer' was taking place. For example, if it were simply a case of changing the default strategy of a pension scheme to align to the new standardised strategy then this might be achievable under existing agreements but more fundamental changes affecting fees or benefits could require new contracts to be made.

Equally some providers and/or employers might prefer to issue a new contract in order to ensure that the rights and responsibilities of all parties—employers, providers, and members—are clearly defined under the new structure and aligned with regulatory requirements.

The existing contract would typically include provisions specific to the prior scheme, such as contribution structures, governance obligations, and investment strategies. A new contract would need to address any changes resulting from the transfer, such as revised charges, updated default strategy options, or alterations to the service level agreement. This process would ensure that the employer's expectations are met and that the arrangement continues to deliver value for members.

The transition to a new contract must be managed transparently to minimize disruption for both employers and members. Employers should be provided with clear communication regarding the terms of the new contract and its implications, particularly in cases where changes in fees, investment strategies, or administrative processes could impact their decision-making or member outcomes.

Regulators might also need to establish guidelines for the contractual process to ensure consistency and fairness. For instance, contracts could include provisions mandating that no member detriment occurs due to the transfer or that specific safeguards are maintained to protect members' rights. These measures would ensure that the new contractual arrangement is robust, equitable, and in line with the overarching goals of consolidation and member value.

2.2.2.5 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?

To ensure that a new pension arrangement is suitable and in the best interests of members, independent oversight should be central to the process. Independent Governance Committees (IGCs) or trustees should evaluate the new arrangement, considering key factors such as investment performance, cost-effectiveness, governance standards, and member benefits. This evaluation should ensure that the new arrangement offers clear and measurable advantages over the previous one.

Given the transfers are being made without member consent, clear and consistent communication with members is also a vital safeguard. Members should be informed about the reasons for the transfer, the expected benefits, and any changes to their pensions. This includes addressing potential risks, such as higher charges or loss of guaranteed benefits, and ensuring transparency to build trust in the process. Members could also be offered the option to opt out of the provider-mandated transfer and choose instead to direct the transfer to a personal pension scheme of their choosing (although this would be an option that could only be offered to 'paid-up' or deferred members of workplace schemes).

Employers should play a consultative role in the decision-making process, particularly for active schemes. Their input can help align the arrangement with workforce needs and ensure a smooth transition. Regulators, such as the FCA and The Pensions

Regulator, should oversee the process, ensuring compliance with standards and intervening where necessary to protect members' interests.

Involving all these parties and establishing a clear, standardised process for evaluating and communicating transfers will help ensure that new arrangements are both suitable and beneficial for members. Robust oversight and transparency are critical to maintaining trust and delivering positive outcomes.

2.2.2.6 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?

Transferring savers from contract-based arrangements to other arrangements, whether contract-based or trust-based, presents several potential issues that must be addressed to ensure smooth transitions and protect member outcomes.

One significant issue is the risk of member detriment, particularly for savers in legacy arrangements with valuable guaranteed benefits, such as guaranteed annuity rates. These benefits may not transfer to the new arrangement, leaving members worse off. Ensuring that such benefits are preserved, or providing compensation mechanisms where they cannot be transferred, is essential.

Operational complexities are another concern. The administrative process of transferring large numbers of members can be resource-intensive and prone to errors. Ensuring that all member records, contributions, and entitlements are accurately transferred requires robust systems and thorough oversight to prevent mistakes that could undermine confidence in the process.

Additionally, communication with members during the transfer process is critical but challenging. Many savers are disengaged and may not fully understand the implications of the transfer. Clear and accessible communication is necessary to help members understand why the transfer is happening and how it benefits them.

Finally, governance differences between contract-based and trust-based arrangements could complicate the process. Moving members from a contract to a trust-based arrangement involves not just changing their pension without their consent but also stripping them of legal ownership of their pension assets. It also involves moving the assets from a regulatory regime overseen by the FCA to one overseen by the TPR (two regimes that are not currently aligned). Aligning these regulatory regimes and indeed governance structures to ensure continuity of oversight during and after the transfer will be crucial to maintaining member protections and achieving the intended benefits of consolidation.

2.2.3 Consumer safeguards and protections

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

As a summary of all that we have already written above, to protect consumers during the transition of pension arrangements, we have suggested several safeguards and measures that would seem to us necessary to ensure fairness, transparency, and alignment with member interests:

Independent Assessment: All transfers should be subject to an independent review by qualified bodies, such as Independent Governance Committees (IGCs) or trustees (although their level of independence from the provider may need to be enhanced). These assessments should evaluate whether the new arrangement provides improved value for money, better governance, or enhanced member benefits compared to the existing scheme.

Preservation of Benefits: Specific safeguards should ensure that consumers do not lose valuable rights or benefits during the transfer process, such as guaranteed annuity rates or favourable terms in legacy schemes. Where such preservation is not possible, compensation mechanisms should be in place to make up for any detriment.

Transparency and Communication: Clear and accessible communication with consumers is essential throughout the process. Members should be informed about the reasons for the transfer, its potential impacts, and any changes to their pension benefits or charges. Providing a dedicated point of contact for questions and concerns would further enhance trust and engagement.

Opt-Out or Compensation Provisions: For cases where members feel a transfer is not in their best interests, a limited opt-out provision could be considered. Alternatively, compensation for demonstrable losses due to the transfer should be provided, ensuring members are not financially disadvantaged.

Regulatory Oversight: Regulators such as the FCA and The Pensions Regulator should actively oversee the process to ensure compliance with legal and fiduciary standards. Regular audits of both the independent and provider processes for transferring of pensions assets without consent as well as clear reporting requirements for providers would ensure transparency and accountability.

By implementing these measures, the system would go some way towards ensuring that consumers are protected and that the consolidation process delivers on its promise of better outcomes for savers without compromising their financial security.

We would reiterate, however, that all of this would seem to be inserting considerable additional costs, complexity and liability into the system the effects of which are ultimately are likely to be borne by members and which could undermine many of the benefits that consolidation is looking to deliver.

2.2.3.2 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?

Yes, there are specific circumstances where a transfer should not be allowed, or where savers should be given the option to opt out. Transfers should be prohibited if they would result in a material loss of benefits for members, such as guaranteed annuity rates or other safeguarded features that cannot be replicated in the new scheme. Alternatively a more nuanced approach would be to offer uplifts to transferring members, or to buy out their protected benefits using separate insurance contracts (although this could be a complex process to execute at a mass market level). Either way protecting such benefits is essential to ensuring that members do not experience financial detriment as a result of the transfer.

Savers should also have the option to opt out if they can demonstrate that the transfer would not be in their best interest due to personal circumstances, such as nearing retirement or having investment preferences that are better served by their existing arrangement. However, opt-outs should be carefully managed to avoid undermining the purpose of consolidation, especially in cases where the existing scheme is underperforming or does not meet regulatory standards.

Additionally, transfers should not proceed if the independent governance body overseeing the process determines that the proposed receiving scheme fails to deliver demonstrable improvements in member outcomes. In such cases, a transfer would conflict with the principle of acting in members' best interests and could lead to long-term dissatisfaction and disengagement among savers. Safeguards and

flexibility in the regulatory framework should accommodate these exceptions to ensure that transfers are fair, appropriate, and aligned with members' needs.

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

Allowing savers to opt out of a transfer could lead to significant complications. One key issue is the administrative burden on providers. Maintaining a partially transferred scheme with a subset of members who have opted out could increase costs and complexity, potentially reducing the overall efficiency and benefits of consolidation. This would undermine the intended goals of improving scale and lowering costs across the pension market.

Another complication is the potential for savers who opt out to remain in arrangements that are no longer viable or fail to deliver value for money. If these schemes are left with fewer members, the cost of maintaining them could increase, further diminishing returns for those who remain. This could create a scenario where disengaged or less financially literate members are disproportionately affected, exacerbating inequalities in pension outcomes.

Moreover, the existence of opt-outs could lead to fragmentation within the regulatory framework. Providers may struggle to meet differing requirements for legacy arrangements and new schemes, creating inconsistencies in governance and oversight. This fragmentation could dilute the benefits of consolidation and complicate the process of ensuring compliance with regulatory standards.

To mitigate these risks, any opt-out provisions should be limited and accompanied by clear communication and support to help savers understand the implications of their decision. Additionally, robust safeguards should ensure that any remaining schemes continue to deliver value for money and are not detrimental to members who choose to opt out. These measures would help balance the need for saver choice with the broader goals of consolidation and improved outcomes.

2.2.3.4 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?

Consumers should have the right to compensation or an individual right of recourse enforceable in court in circumstances where a transfer results in demonstrable financial detriment due to negligence, misrepresentation, or failure to follow proper processes. This includes cases where members lose valuable safeguarded benefits, such as guaranteed annuity rates, without adequate compensation or where they are transferred to a scheme that performs worse or charges higher fees without justification.

Savers should also have recourse if there is a breach of fiduciary duties by those overseeing the transfer, such as Independent Governance Committees or trustees, particularly if decisions are made without proper evaluation of member interests. Similarly, if providers fail to meet regulatory standards or miscommunicate the terms and implications of the transfer, leading to financial loss or a reduction in benefits, members should be entitled to legal redress.

To ensure fairness, the framework for compensation and recourse should include mechanisms for assessing harm and determining accountability, such as independent reviews or access to ombudsman services. This would provide members with the confidence that their interests are protected and that they have the means to seek redress if those interests are compromised. Clear regulatory guidance is essential to support these rights and maintain trust in the consolidation process.

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

In the UK pension market, trust-based bulk transfers are subject to several safeguards to protect members' interests and ensure the process is conducted fairly and transparently. These safeguards include:

a) **Trustee Oversight**: Trustees of the ceding scheme must determine that the transfer is in the best interests of members. They have a fiduciary duty to act in members' interests and are expected to assess the suitability of the receiving scheme.

b) **Independent Advice**: Trustees are generally required to seek independent advice from a qualified actuary or other financial expert before deciding on a bulk transfer. This advice evaluates whether the receiving scheme provides benefits that are broadly comparable to those of the transferring scheme.

c) **Broadly Comparable Benefits**: Bulk transfers without member consent are permitted only if the receiving scheme offers benefits that are broadly equivalent to or better than those provided by the ceding scheme. This ensures members are not disadvantaged by the transfer.

d) **Member Communication**: Trustees must communicate clearly with members about the transfer, including its rationale, potential impacts, and any changes to their benefits. While member consent may not be required, transparency is critical to maintaining trust.

e) **Preservation of Safeguarded Benefits**: Certain safeguarded benefits, such as guaranteed annuity rates, must be preserved in the receiving scheme. If these cannot be preserved, compensation mechanisms may be required.

f) **Clear Regulatory Requirements**: Transfers are governed by regulations set out in the Occupational Pension Schemes (Preservation of Benefit) Regulations 1991 and the Pensions Act 1995. These laws set out the conditions under which bulk transfers can occur, including the requirement for comparable benefits and proper oversight.

g) **Audits and Compliance Checks**: Regulators such as The Pensions Regulator (TPR) monitor the process to ensure compliance with the rules. Schemes must demonstrate that they have followed due process and acted in members' best interests.

h) **Right of Recourse**: Members have the right to challenge transfers if they believe the process was flawed or that their interests were not adequately considered. Dispute resolution mechanisms, including access to the Pensions Ombudsman, are available to handle such cases.

These safeguards are designed to protect members from detriment, ensure fairness, and maintain trust in the pension system during consolidation or scheme restructuring. In our view all of these safeguards should apply to a contractual override process although doing this may prove complicated since trustees have much greater legal powers to oversee these processes than IGCs (whose role is largely an advisory one to the provider and has no fiduciary responsibility to the members).

2.2.3.6 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?

We do not have significant insights into potential conflicts between the interests of existing and incoming members, although such conflicts could arise if, for example, incoming members enter at lower costs than existing members to maintain fee levels from their previous schemes. If conflicts do arise, a mechanism for resolving them will likely be necessary. This responsibility should not fall solely on trustees, given that these activities are driven by both government and providers. This could result in trustees managing an irreconcilable set of potential conflicts while providers and regulators avoid involvement. If trustees are to handle this, more information is needed on the responsibilities that providers and regulators have in supporting conflict management.

2.2.4 **Cost of transfer & Role of the regulators:** *Questions 25-28 not answered*

2.3 Costs versus Value: The role of employers and advisers

2.3.1 Employers

2.3.1.1 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?

We find this question slightly confusing. Is the government really suggesting that a focus on keeping costs low for pension savers is evidence of poor-quality decision-making? Numerous studies have demonstrated the significant long-term financial detriment that even a few basis points of unnecessary costs can accumulate over the 40+ year lifetime of a pension product. A low-cost focus is not inherently at odds with delivering quality outcomes but is instead a key component of ensuring value for money for savers.

Regulators, government, and even the industry appear to have overlooked that this focus on cost has not arisen due to a lack of governance or oversight—it is a symptom of the increased governance and oversight that pensions have been subjected to over the years. Consider the position of a fiduciary: when faced with an investment strategy that only might improve member outcomes versus one that would definitively lower member costs permanently, which option would you choose? Moreover, in an era where fiduciaries are likely to be asked to demonstrate, with data, how their decisions have improved member outcomes, the choice becomes clear. A reduction in costs is a quantifiable and guaranteed improvement, whereas the benefits of certain investment strategies may or may not materialize. This focus on cost is not negligence but prudence underpinned by the fiduciary's legal and ethical responsibilities.

Beyond this, there are practical challenges in assigning a named executive to take on responsibility for retirement outcomes. Most employers lack the expertise needed to assess complex pension arrangements and make informed decisions about long-term strategies. Even professional governance bodies, such as those at Railpen in 2015, have encountered challenges in navigating these responsibilities over time, despite their extensive resources and experience. Expecting individual employers to take on these tasks without the same level of support and expertise is unrealistic and risks disengagement or poor decision-making.

While assigning a named executive could create a focal point for accountability, this approach risks placing undue responsibility on those without the requisite skills or resources. Properly equipping employers with guidance, training, and access to expert support would be essential to avoid negative consequences. Additionally, alignment with existing governance structures, such as Independent Governance

Committees or trustees, would be necessary to prevent duplication or conflicts of responsibility.

In conclusion, while accountability for retirement outcomes is important, this proposal mischaracterizes the focus on cost as poor decision-making and underestimates the challenges employers face. A more effective approach would involve enhancing support for existing governance structures and recognizing the legitimate and necessary emphasis on cost as a fundamental aspect of delivering value to members. This would respect both fiduciary responsibilities and the practical realities of pension governance.

2.3.1.2 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?

There is limited direct evidence in the UK to suggest that placing a duty on employers to consider value would consistently lead to better member outcomes. This is largely because the UK does not yet have a fully implemented Value for Money (VfM) framework that could produce the comparative metrics necessary for employers to make informed decisions. Moreover, the VfM framework currently in development is aimed at a professional pensions audience—trustees, Independent Governance Committees (IGCs), regulators, and providers—not employers or individual consumers. As such, the evidence required to support this proposal is unlikely to emerge until the framework is operational and extended to a broader audience.

Insights can, however, be drawn from Australia's superannuation system, which has implemented a similar focus on value for money. In Australia, assessments focus on net benefit outcomes—calculating contributions and investment earnings minus costs, fees, taxes, and premiums. This approach prioritizes long-term member outcomes and has driven increased scrutiny of underperforming schemes. Evidence suggests that it has prompted significant consolidation and improved transparency, benefitting members by reducing fees and enhancing outcomes. However, these assessments are largely driven by professional entities, not employers, highlighting the challenges of expecting employers to undertake such responsibilities without adequate support or expertise.

If such a duty were introduced in the UK, its design should consider the diversity of employers and their capacities to assess value. Larger employers with dedicated HR and financial teams may be better positioned to fulfil this role, while smaller employers would require significant support. Tailored compliance requirements, simplified benchmarks, and access to tools such as dashboards or standardised comparison frameworks would be essential to enable all employers to assess value effectively.

To ensure ease of value-for-money comparisons, the VfM framework could provide clear, accessible metrics that employers can use to evaluate schemes. Public dashboards or comparison tools, informed by lessons from Australia's net benefit model, could empower employers to make more informed decisions. These tools would need to be designed for non-experts, focusing on simplicity and actionable insights.

In conclusion, while a duty on employers to consider value has potential, its success hinges on the development of a fully operational VfM framework and clear mechanisms to support employers in fulfilling this duty. However, implementing the framework and embedding it into decision-making processes for employers and other

stakeholders will take considerable time—likely years—particularly given the complexity of aligning such efforts with the broader consolidation agenda. Moreover, this approach to consolidation, focused on thoughtful evaluation and incremental improvement, is fundamentally at odds with a blunt tool like AUM minimums, which forces consolidation irrespective of value considerations. The government must carefully weigh the trade-offs between these conflicting approaches to ensure that member outcomes are not compromised in pursuit of economic benefits and administrative efficiencies that may or may not ever emerge.

2.3.2 Regulation of advice

2.3.2.1 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?

Employers selecting Defined Contribution (DC) pension schemes for auto-enrolment often rely on a range of advice sources, including payroll providers, employee benefits consultants, and financial advisers. While these sources may be knowledgeable about operational aspects like administration, compliance, and costs, many lack the qualifications or expertise to assess the quality of investment offerings within the schemes they recommend. Investment quality—a critical driver of long-term member outcomes—is frequently overlooked or under-prioritised, leaving employers ill-equipped to make fully informed decisions.

Many small and medium-sized employers, in particular, may turn to payroll providers or non-specialist advisers who focus on ensuring compliance with auto-enrolment duties but lack the capacity to evaluate governance, investment performance, or member-focused outcomes. In contrast, large employers with access to more sophisticated advice are better positioned to select schemes offering both strong value and high-quality investments. This disparity creates inconsistencies in member outcomes, largely dependent on the resources and expertise available to their employer.

It is also worth noting that advice for employers selecting pensions for tens, hundreds, or even thousands of employees remains largely unregulated. In contrast, advice given to a single individual on pension matters is a highly regulated activity, requiring advisers to adhere to rigorous standards of training, competence, and accountability. This disparity remains an anomaly that long-term observers of the pensions industry continue to struggle to comprehend.

The case for addressing this imbalance is clear and stands independently of the broader consolidation agenda outlined in this consultation. Introducing regulation for employer-facing pension advice would help ensure that all employers—irrespective of size—receive guidance that prioritizes value, investment quality, and member outcomes, fostering a more equitable and effective pensions market.

2.3.2.2 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?

Regulating advice provided to pension schemes on investment strategies could potentially support more productive asset allocation, but it is important to acknowledge the existing dynamics in the UK market. For smaller and medium-sized employers, the investment strategies offered within pension schemes are typically pre-designed, and employers have little to no influence or ability to bespoke these options. For larger schemes, where bespoke investment strategies become possible, investment consultants often encourage broader asset allocations and more active

fund selection. These actions align with their fee structures, as such strategies are more complex and require ongoing advice. However, it is important to note that they are already pushing for broader asset allocations without regulation, making such oversight potentially redundant for larger schemes.

Evidence from Australia highlights the impact of regulation in driving productive asset allocation. The Australian Prudential Regulation Authority (APRA) enforces rigorous performance assessments for pension schemes, ensuring that investments align with member outcomes. However, this regulation applies to commercial superannuation schemes managed by professional investment teams, rather than employer-led schemes that rely on external advice. In this context, advice is often unnecessary because the schemes are already governed by investment professionals. This suggests that such regulation may be most effective when applied to providers or schemes directly, rather than to investment advisers.

In a UK context, effective regulation could target provider schemes to ensure that default strategies and broader asset allocations align with member interests and deliver long-term benefits. For investment advisers, regulations could focus on transparency and accountability, requiring advisers to disclose conflicts of interest, justify their recommendations, and demonstrate how their advice supports productive allocation and better member outcomes.

In conclusion, while regulating advice to pension schemes has potential, much of the push for broader asset allocation already exists in larger schemes due to consultants' business models. For smaller employers, direct regulation of provider schemes, as seen in Australia, may be a more practical and impactful approach. Targeting transparency and accountability within the advisory process could complement this by ensuring alignment with the long-term interests of members.

2.4 **Impacts and Evidence**: *questions not answered (as we are not a provider and do not have this data)*

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