

Written evidence submitted by Insight Investment (PSB11)

Response to call for evidence on the Pension Schemes Bill

Insight Investment is one of the largest investment managers in the UK. Our clients include hundreds of large and small UK defined benefit (DB) pension schemes, all of which are seeking to ensure a secure retirement for their members.

Insight agrees with the government that the Pension Schemes Bill represents a huge opportunity to unlock vital assets from pension funds for investment in the UK economy and act as a driver for economic growth. We share that ambition.

The government has made great progress so far. The ingredients are in place, but there remains the risk that without suitable measures in place to reassure pension trustees that members' pensions will remain secure, the aspirations of the government will fall short.

In this response to the call for evidence on the Pension Schemes Bill, we outline how, through introducing one key enabler, the Bill can safely allow trustees of well-funded DB pension schemes to share surplus funds with sponsoring employers.

EXECUTIVE SUMMARY

- **DB surplus release is critical for the UK's future**
 1. Unlock £160 billion to drive essential growth and deliver benefits for people and companies
 2. Maintain foundational demand and much-needed stability in the gilt market
 3. Enable the best outcome for the pensions of millions
- **The new DB surplus release policy is very positive but unlikely to achieve its full potential if trustees feel obliged to retain excess surplus**
 1. Only £11 billion will be released over 10 years, according to the government
 2. Most DB schemes are still targeting a buy-out in the near future
 3. A key reason is pension scheme trustees' focus is primarily on ensuring pension security
- **Universal 100% PPF protection is the key missing ingredient**
 1. Increasing PPF protection would provide the reassurance trustees need to release surplus
 2. The minimal cost and well-managed risks would be far outweighed by the benefits
 3. The previous government consulted on an opt-in model for increased PPF protection, which had flaws and unattractive implications for the PPF levy – a universal model would have a broader base and a materially lower levy

We would be delighted to expand on the design and economic analysis of universal 100% PPF protection, either through additional written evidence or by providing oral evidence to the Committee.

KEY QUESTIONS TO CONSIDER ON THE GOVERNMENT'S DB SURPLUS RELEASE POLICY

1. **The government's impact assessment suggests that only £11 billion of DB surplus assets will be released over the next 10 years, rather than £160 billion as previously announced. How does the government plan to address this gap?**
2. **The government's timeline for enabling DB surplus release suggests it will only be possible from early 2028. Given the significant risks if surplus release is delayed, how might the government expedite this timeline?**
3. **Pension scheme trustees rightly focus on the security of pensions, and increasing PPF protection to 100% for all DB schemes (subject to them operating in line with regulatory guidance) is a clear way to offer such security. Will the government ask the PPF to conduct analysis of the cost of such protection, and to publish an impact study?**

DB SURPLUS RELEASE IS CRITICAL FOR THE UK'S FUTURE

1. Significant challenges and the need for growth

The UK faces major economic challenges. The government has valued the potential surplus assets for release at £160 billion. This is a substantial amount which could help drive investment in the UK economy and productive assets. This would make a meaningful positive difference for members and sponsors, and also for economic growth.

The UK faces significant long-term challenges, including £2.8 trillion of government debt; £1.3 trillion of unfunded public-sector pensions; the need to increase spending on defence; an ageing population and record-low fertility rates; and the looming impact of climate change, which will substantially increase the UK's debt burden.¹

We share the government's vision that growth is essential to overcoming these challenges, and investment is key. While the government's focus on defined contribution (DC) pension schemes and LGPS funds is commendable, the impact of changes here will take a long time to materialise.

In contrast, the UK's DB schemes can play a crucial role in supporting the government's vision for growth and, crucially, can deliver relatively quickly. These schemes hold around £1.2 trillion of assets – more than DC and LGPS funds combined – and are in excellent health, with most schemes reporting a very healthy surplus. By unlocking these assets we can bridge the gap to the long-term potential of DC and LGPS funds.

The release of DB surplus assets could:

- be used by UK sponsoring employers to invest in their own businesses,
- generate substantial tax revenues potentially amounting to tens of billions of pounds²,
- provide additional funds to sponsoring employees to pay for DC contributions – a particular concern given the inadequacy of most DC pensions³, and
- finance increased benefits and/or lump sum payments for DB scheme members, which would enhance the financial wellbeing of millions of members and would be taxed and spent in the UK economy.

Schemes which run on for the longer term will also have increased capacity to invest in more 'productive assets', such as infrastructure projects, which are typically longer-dated and less liquid.

¹ Government debt: [Public sector finances, UK: February 2025](#), 21 March 2025, Office for National Statistics; figure cited is public sector net debt (PSND) excluding public sector banks. Public sector pensions: [Unfunded public sector pension liabilities](#), 21 March 2025, Office for National Statistics. Defence spending: [Spending Review 2025](#), 11 June 2025, HM Treasury. Ageing population: [The UK's changing population](#), 16 July 2024, House of Commons Library. Fertility rates: [How is the fertility rate changing in England and Wales?](#), 28 October 2024, Office for National Statistics. Climate change impact: [Fiscal risks and sustainability – July 2025](#), 8 July 2025, Office for Budget Responsibility.

² Industry estimates of surplus release over next 10 years range from £100bn to £350bn, which if paid to sponsors and/or members, and taxed at c.20%, could raise £20bn to £70bn.

³ For example, see [Reforms needed as millions of employees on track for inadequate retirement incomes](#), 16 September 2024, Institute of Fiscal Studies.

2. The gilt market and the need for ongoing support

Enabling and encouraging DB surplus release could lead many DB schemes to run on for the longer term rather than to pursue an insurance buy-out at the earliest opportunity. The benefits of this would include crucial ongoing, long-term support for the gilt market. If most schemes remain on track for buy-out, we can expect over £500 billion of gilts being sold, driving up government bond yields – the price of funding government debt.

The regulatory regime for DB schemes has focused on ensuring the security of members' benefits. This is typically interpreted as conducting an insurance buy-out. Without change, most DB pension schemes are likely to conduct buy-outs over the next five to 10 years.

However, to back pension liabilities, insurance companies hold only a small proportion of their investments in gilts. This is because they invest in riskier assets to generate profits and would only expect to hold the bare minimum necessary for collateral or capital purposes over the longer term. This is an economic reality rather than a result of regulation such as Solvency II, and provides a clear incentive for insurers to sell most of the gilts received from a DB scheme when a scheme conducts a buy-out with an insurer.

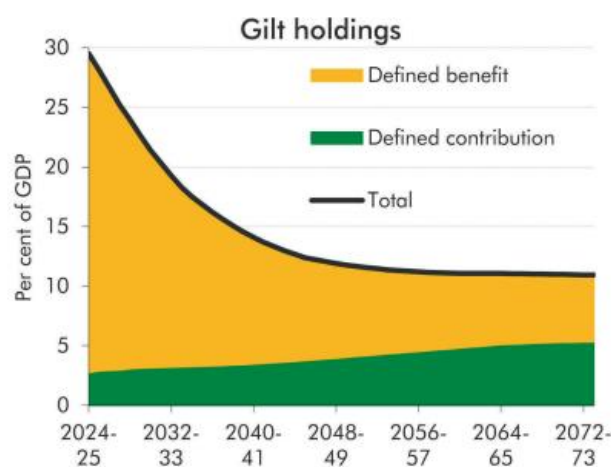
We estimate direct and indirect holdings of gilts by DB schemes at over £750 billion. If these were transferred to insurers, conservative estimates indicate this could lead to sales of over £500 billion of gilts over the next decade.

Gilts are the foundation of the UK economy. The implications of increased gilt supply, and further upward pressure on gilt yields, will be wide-reaching. It will become more expensive for the government to borrow, potentially increase the budget deficit, and increase pressure to raise taxes to fund government spending. Across the wider economy rising gilt yields will increase the cost of borrowing for UK corporates and make mortgages more expensive for homeowners.

The Office for Budget Responsibility (OBR) has acknowledged and highlighted the expected decline in DB pension schemes' gilt holdings (see right). It suggests the "decline in the pensions sector's gilt holdings could push up interest rates on government debt by around 0.8 percentage points, assuming the stock of debt remains close to 100 per cent of GDP...this could eventually increase debt interest spending by £22 billion".⁴

We note that the OBR significantly underestimates holdings of gilts within DB pension schemes at £560 billion. DB schemes use gilt sale and repurchase agreements (repo) to fund additional gilt exposure, meaning that a significant proportion of schemes' gilt holdings will be assigned to banking counterparties within official data. UK DB schemes also use funds domiciled in Ireland to hold gilts, and these would be assigned to overseas investors within the data. We estimate that DB pension schemes' gilt holdings could amount to £750 billion or more.

On the current policy platform, the impact, therefore, of insurers selling gilts over the coming decade will be even larger than current OBR estimates.



Source: OBR

⁴ [Fiscal risks and sustainability – July 2025](#), 8 July 2025, Office for Budget Responsibility.

3. The need to ensure security for millions of pensioners

UK DB pension schemes overall offer significant security. If they do not run on for the long term with the ability to release surpluses generated through investment outperformance, they will remain on track to transfer their assets and liabilities to insurers through buy-outs. At scale, this would mean the pensions of millions being backed by around 10 insurers, which would raise questions around the overall security of these pensions.

The UK corporate DB system is one of the most robust pensions systems in the world. The pension promises of the almost 10 million members are protected through multiple layers:

- **Very well-funded system:** the liabilities across DB pension schemes in aggregate are backed by more than enough assets; these are primarily invested in gilts and high-quality credit.
- **Strong, diverse sponsor backing:** around 4,000 companies (operating in multiple sectors across the globe) stand behind the c.5,000 schemes; the combined value of these companies exceeds £5 trillion, according to industry estimates.
- **Effective, clear regulation:** The Pensions Regulator (TPR) oversees pension schemes; pension schemes have to comply with the Pensions Act and the Funding Code which sets out minimum funding level requirements and maximum levels of risk pension schemes are allowed to take.
- **Independent governance:** pension schemes are not only overseen by TPR – trustees protect their scheme members' interests.
- **Fully funded PPF:** members' pensions (subject to caps) are also largely protected by a fully funded backstop, the PPF, which currently has reserves of £14.1 billion⁵. Risk is mutualised through the PPF as the PPF can 'levy' the c.4,000 sponsors for any underfunding that exists in the UK corporate DB system.

The combination of its healthy level of funding, low-risk investment strategy, diversity and combined strength of backing sponsors, regulatory oversight, independent governance and funded protection, means many view the UK corporate DB system to be highly secure.

While a buy-out will make sense for some schemes, we note that there are fewer than 10 insurance buy-out providers, and these can rely on overseas reinsurance providers (this dynamic is already a focus of regulatory concern). Arguably, in an extreme worst-case scenario which challenged the security of the existing DB pension system, insurers would also face significant challenges, potentially leading to the government needing to provide explicit support for pensioners.

⁵ [20 years of protecting people's futures: Annual Report and Accounts 2024/2025](#) (PDF), 10 July 2025, PPF.

THE NEW DB SURPLUS RELEASE POLICY IS VERY POSITIVE BUT UNLIKELY TO ACHIEVE ITS FULL POTENTIAL IF TRUSTEES FEEL OBLIGED TO RETAIN EXCESS SURPLUS

Despite the potential benefits, the government's impact assessment states that the new rules will only result in £11 billion of surplus being released over the next decade.⁶ This assessment uses projections that buy-outs of closed DB scheme assets will average 7% per annum over the next 10 years.

A key issue is trustees' understanding of their fiduciary duty and their focus on the security of member benefits. Any surplus release, no matter how well funded a pension scheme might be, reduces member security, and some trustees will likely conclude that they should maintain large surplus buffers against the risk of future challenge. Having established full funding on a 'low dependency' basis as the right level of security, it is essential for the government to enable surplus release on a basis that is as close to this level as possible.

In the absence of further measures, even if a pension scheme has more than enough assets to secure pensions, many trustees will decide against releasing any assets beyond what is required to conduct a buy-out with an insurer, unless the sponsor covenant is very strong or there is other robust support in place.

Against this backdrop, many trustees will pursue a buy-out rather than release any surplus, and surplus release volumes will remain well below the amounts that are available on a low dependency basis.

Such excessive prudence may result in poorer outcomes for members, sponsors, and the broader economy, whilst also undermining the future of the gilt market.

⁶ [Pension Schemes Bill impact assessment: summary of impacts](#) (PDF), June 2025, Department for Work and Pensions.

UNIVERSAL 100% PPF PROTECTION IS THE KEY MISSING INGREDIENT

Universal 100% PPF protection for all DB schemes, subject to them investing in line with regulatory guidance, would reassure trustees and result in more surplus being released. Costs would be minimal and moral hazard would be well managed. The government has only consulted on a flawed opt-in model for PPF protection.

A straightforward way to reassure trustees and pension scheme members, for little cost and risk, is to improve the protection offered by the PPF. The PPF offers partial protection for the members of UK private-sector DB schemes⁷, and it has played an important role for many years.

But now that many pension schemes are in a very healthy position, they can be confident of paying their members the full pensions they have been promised, so partial protection seems irrelevant and unnecessary. In the current environment, even if corporate sponsors go bust, it is unlikely that the typical pension scheme would end up in the PPF because the protection the PPF offers is inferior to the benefits such schemes can provide to their members. The PPF could play a much more meaningful role and offer protection that is actually relevant in the current state of the DB pension schemes by increasing the protection it offers.

By increasing the protection the PPF provides to 100% of benefits for all schemes, subject to them investing in line with regulatory guidance, trustees would be reassured that scheme members would ultimately receive their benefits in full. They would therefore be more likely to accept surplus release.

1. The cost of increasing PPF protection would be minimal

Increasing the protection offered by the PPF can be achieved at a minimal cost. Given the health of UK DB schemes, changes in their approach to ensure resilience in the face of interest rate movements, the low levels of investment risk within their portfolios, and the overall strength of the thousands of corporate sponsors backing these schemes, we expect the levy to be very low (around 0.1% or lower of DB scheme assets under management).

2. Moral hazard would be limited and well managed

Some have suggested that moral hazard could be a concern with increasing PPF protection to 100%, as schemes might be expected to adopt riskier investment strategies and otherwise generally reduce prudence as member benefits would be protected regardless.

This moral hazard already exists and protections are already in place to minimise such activity, including the requirements of the DWP Funding and Investment Regulations and The Pensions Regulator's DB Funding Code, which set clear guidelines on prudent and appropriate risk exposure.

PPF protection kicks in only when the sponsoring employers is insolvent. It is difficult to see a scenario in which trustees and corporate sponsors of pension schemes are risking corporate insolvency in pursuit of accessing upgraded PPF benefits. Solvent sponsoring employers would remain liable for emerging scheme deficits, and as such, they would be unlikely to support excessive risk-taking. Furthermore, trustees are required to have regard to sponsors' sustainable growth; it is therefore inappropriate for them to adopt risky investment strategies not supported by the sponsor covenant. We note that c.90% of the £1.2 trillion of DB scheme capital, and the associated risks, sit with the largest 1,000 schemes. These are typically backed by strong sponsors which would be unlikely to tolerate excessive risk-taking in their pension schemes.

The costs, and risk of moral hazard, introduced by universal PPF 100% protection would therefore be manageable and immaterial relative to the opportunity presented by surplus release and, on the other side, the risk to the economy and government finances from gilt sales due to insurance buy-outs.

⁷ For more information, see [What is the Pension Protection Fund? \(PDF\)](#), February 2022, PPF.

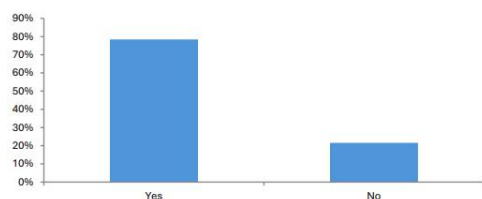
CONCLUSION

As one of the largest holders of gilts on behalf of UK DB pension schemes, we have a wide and deep client base. Our clients reinforce our view that even if their DB scheme has more than enough assets to cover all future pensions, trustees want peace of mind that even in an extreme, unlikely scenario, there is meaningful protection for their members.

A recent survey by the Association of Consulting Actuaries suggests that increased PPF protection would increase trustee willingness to release surplus, if this protection was at a low cost (see below).⁸

Do you think trustees would be more inclined to consider release of surplus if PPF compensation was increased to broadly 100% of benefits?

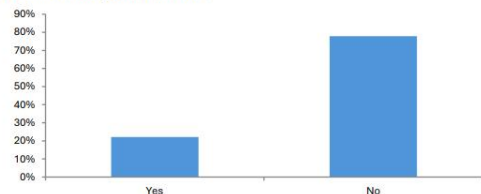
Based on 269 completed answers



- Over 75% of respondents think that if PPF compensation was increased to broadly 100% of benefits, trustees would be more inclined to consider release of surplus.
- However less than 25% of respondents thought that trustees and sponsors would be willing to pay a material premium to pay for this.
- The results for these questions were largely the same across Trustee and Corporate focussed advisors.
- Some comments suggested that the levels of additional premium required quoted in the market could be overstated, but this might also depend on the approach adopted.
- **ACA view:** Given the answers to the previous question about the importance of the probability of members receiving full benefits and covenant strength, it is not surprising that increasing PPF compensation levels to broadly 100% of benefits makes it easier for trustees to agree to release surplus to sponsors. However, there are concerns about the potential cost and risks of increasing PPF compensation levels to 100% and the government has indicated it is unlikely to proceed with such a measure.

Do you think schemes/employers would be willing to pay a material premium to the PPF for this?

Based on 235 completed answers



The previous government proposed a new model for the PPF last year, but it was expensive, flawed and unworkable, focusing only on protecting a handful of well-funded schemes.

With a universal model, increasing the level of protection the PPF provides to 100% of benefits for all schemes, subject to them investing in line with regulatory guidance, trustees' perceptions of surplus release would be transformed and lead to the success of the government's DB surplus release policy.

This would result in tangible benefits for millions of DB scheme members, thousands of corporate sponsors, the gilt market, the government and the UK economy, and retaining security for pensioners.

We therefore propose the following amendment for consideration as the Bill progresses through Parliament:

All private-sector UK defined benefit pension schemes shall be eligible for Pension Protection Fund protection covering 100% of members' accrued benefits, conditional upon a scheme's compliance with investment and funding requirements set out in relevant regulatory guidance.

We would be delighted to expand on this proposal, either through additional written evidence or by providing oral evidence to the Committee.

Insight Investment – July 2025

⁸ [Unlocking DB Pension Scheme Surplus: Report on the ACA 2025 DB Surplus Survey](#) (PDF), July 2025, Association of Consulting Actuaries.