

7 August 2025

Public Bill Committee call for evidence: Pension Schemes Bill

Brightwell welcomes the opportunity to contribute to the Public Bill Committee's call for evidence on the Pension Schemes Bill.

About Brightwell

Brightwell is the primary service provider to the c.£37bn BT Pension Scheme (BTPS), one of the largest private sector pension schemes in the UK with c.260,000 members. Brightwell also provides fiduciary management services to the defined benefit (DB) section of the EE Pension Scheme (EEPS) which has c.£1bn AUM and 8,000 members. Brightwell is also the administrator for the Mineworkers' Pension Scheme (MPS) which has c.120,000 members.

The following response is from Brightwell and does not represent the views of the Trustees of BTPS, MPS or EEPS. Any reference to pension schemes in this response means UK trust-based DB schemes, unless otherwise stated.

Executive summary

Introducing a statutory override for DB pension schemes is a crucial step in providing the opportunity for well-funded DB pension schemes to work with their sponsors on refunding contributions that are no longer required to deliver on the scheme's promises.

As it currently stands, UK businesses have full responsibility for repairing deficits in their pension schemes but have very limited access to any overfunding or surplus except at wind-up, even when the scheme no longer needs the funds

The measures in the Pension Schemes Bill will introduce greater symmetry and are likely to encourage a greater proportion of DB schemes to run on for the longer term rather than buying out with an insurer.

Returning funds that are no longer needed, will support the UK economy, being used by UK businesses to support their own priorities. Decisions taken how surplus will be used will be highly scheme specific.

In DB schemes, the trustees have one overriding priority: to ensure there is sufficient money in the scheme to pay members' pensions. To do this, they must oversee an investment strategy that will provide sufficient funds to pay pensions in the future with an acceptable level of predictability.

In our view, concerns about the security of DB members' benefits following the release of surplus are overstated where the covenant and sponsor relationship are both positive.

In the main, the UK corporate DB system is highly secure, supported by strong funding rules, diverse sponsors, regulatory oversight, independent governance and funded protection.

Surplus release should only be allowed where schemes are sufficiently well-funded with low funding volatility and trustees are satisfied it is safe to do so. A gradual release would be the most prudent approach to prevent any regret risk.

Benefits of surplus release

Return of surplus could provide funds for UK businesses to reinvest in their own business priorities and, in turn, the real economy.

Research we conducted in January 2025 with trustees of 21 large corporate DB schemes over £1bn found that over a third (38%) plan to run on, 24% plan to buy out and 38% have not yet decided on their endgame.

Half of undecided schemes and 40% of those targeting buy-out would consider run-on if the government makes it more attractive.

In May 2025, we surveyed 100 finance decision makers within companies that have closed defined benefit schemes larger than £500 million via Censuswide to ask them about surplus release.

The vast majority (93%) of businesses surveyed said they planned to request access to the surplus in their pension schemes if regulations change.

Nearly half (49%) said they plan to re-invest this surplus into their UK operations supporting the government's ambitions.

Additionally, 44% intend to share it with members of the defined benefit scheme, 42% plan to reinvest in global operations, 40% would distribute the funds to shareholders, while 33% would use them to cover costs and expenses associated with running their defined contribution (DC) scheme. Over one in five (22%) of respondents say the surplus released would be used to directly fund contributions to the DC scheme.

Benefits of DB scheme run-on

Encouraging DB schemes to run on rather than buy out can offer members and sponsors greater flexibility and long-term value. By continuing to operate, well-funded DB schemes can maintain control over both investment strategies and the service members receive.

From an investment perspective, DB schemes are able to invest in a wider range of assets than insurers as they aren't subject to Solvency II regulations which impose strict capital requirements and limit the types of assets they can hold.

DB schemes operate under a different regulatory framework that allows for greater investment discretion, provided they meet funding and risk management requirements.

In addition, DB schemes provide a stable and substantial source of demand for gilts, which helps the government finance public spending at sustainable rates. Insurers typically hold fewer gilts.

Allowing surplus to be released when a DB scheme is fully funded on a low dependency basis, rather than a buy-out basis, will, we believe, provide a necessary incentive for a significant proportion of corporate sponsors to consider surplus release. Low dependency was designed by The Pensions Regulator to ensure that members receive their full benefits with a high degree of probability and trustees could (and are likely to) seek to add a buffer if they deem it necessary.

One concern we have is whether trustees, and their advisers, will feel confident releasing surplus without changes to regulations and / or clear guidance to make it clear that this is an acceptable step to take.

How should the surplus be released?

A gradual release of surplus funds over time reduces the regret risk of large one-off payments and allows surplus funds to be generated and released on a more predictable and stable basis, which would be beneficial to both the scheme and the sponsor.

One example is a mechanism (e.g. an agreed funding level) which would be regularly tested and an agreed amount of surplus above that level be able to be withdrawn. This could be structured as a 'surplus recovery plan' to mirror the 'deficit recovery plans' that currently exist in the DB funding regime.

A series of payments could also help manage the sale of illiquid assets in the pension scheme, would create smoother and more predictable cashflows for all parties and avoid potential controversy or adversarial issues around the choice of a particularly favourable/unfavourable date for surplus decisions.

The time period over which surplus is released could also impact how a sponsor uses such funds. For example, a large one-off surplus release to the sponsor may be subject to greater investor pressure for a special dividend or share buy-back. In comparison, a more gradual release could be factored into a sponsor's investment plans.

What level of protection is needed for the members of a scheme releasing surplus?

The release of surplus has led to concerns from some about the security of DB members' benefits. We believe these concerns have been overstated.

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

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. Allowing DB schemes to release surplus above a safe funding threshold will still leave the above features intact, ensuring significant security for millions of individuals.

It is essential that trustees have a formal role in assessing and agreeing any rule changes, and any actual refund of surplus to the employer. This has the positive that the trustees can flexibly assess the situation taking into account scheme and sponsor specific circumstances. If guidance were to set out the acceptable funding level under specific circumstances then trustees will be able to gauge the level of margin appropriate to their scheme's circumstances taking into account additional security provided to the scheme and the status of the employer and level of investment and funding risk, without needing legislation to specify every eventuality.

PPF levy reform

We welcome the reforms to the Pension Protection Fund (PPF) to remove the legislative restrictions that previously prevented the PPF from reducing the annual levy to zero. This increased flexibility reflects the improved funding position of defined benefit schemes and the PPF's substantial surplus. We have consistently advocated for this reform and were pleased to see its inclusion.

We would also like to see an amendment to the Bill to enact both the recommendation of the independent Titcomb review to abolish the PPF Administration Levy and to include the ability for the PPF to recover its administrative costs via the PPF surplus.

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