By online submission to the House of Commons Public Bill Committee

12 August 2025

PENSION SCHEMES BILL – CALL FOR EVIDENCE

Overview

About the Railways Pension Trustee Company Limited (RPTCL) and Railpen

1. RPTCL (or the Trustee) is the corporate trustee of the principal pension schemes in the UK railway industry, including the Railways Pension Scheme (RPS) and the British Transport Police Superannuation Fund (BTPFSF).
2. RPTCL's wholly owned subsidiary, Railpen, provides it with a full range of market-leading pension administration, investment and fiduciary services.
3. We have expertise and experience in both defined benefit (DB) and defined contribution (DC) pensions. Of the 100+ DB Sections of the RPS, 34 remain open to new members.
4. We are responsible for the safekeeping and investment of circa £34 billion, looking after the interests of over 350,000 members.
5. Acting as a long-term, responsible investor is fundamental to the Trustee's mission of paying members' pensions securely, affordably, and sustainably.

Summary of our response

6. We share the Government's commitment to ensuring that the Pension Schemes Bill (the Bill) improves returns for savers, prioritises value, and drives long-term UK investment.
7. There are some provisions that we specifically endorse; some where we would appreciate further clarification; and some where we have concerns. Our concerns are summarised in this section and set out in more detail below.
8. **DB funding Surpluses:** while we are broadly supportive of greater flexibility in the treatment of DB funding surpluses policy, the Bill does not appear to make it easier to make one-off discretionary payments to members – essential for shared-cost schemes such as the RPS. We continue to strongly encourage a more practical solution taking the form of one-off discretionary lump sum payments to members, which are not normally possible under current HMRC rules without penal tax charges.
9. The policy on DB surpluses, and any associated guidance from The Pensions Regulator (TPR), must make a clear distinction between open and closed DB schemes. Open DB schemes often intentionally operate with a significant Technical Provisions surplus as a key component of their long-term sustainability which can act as an important buffer to fluctuations in the level of investment returns.
10. **Exemption from DC consolidation:** the Trustee put forward criteria in its response to the consultation 'Unlocking the UK pensions market for Growth' (the Consultation) in January 2025, specifically to exempt the Industry Wide Defined Contribution Scheme (IWDC) – the DC arrangement of the RPS – from its proposed policies on DC consolidation. The Government's consultation response and the drafting of the Bill to exempt hybrid provides us with strong comfort that the IWDC will be exempt from these requirements. We request that regulations are unequivocal in this respect.
11. **Asset allocation:** we support investment in UK private markets, subject to this being in members' best interests. As of March 2025, approximately a third of our Assets under Management are invested in the UK. We are against the creation of a backstop power: whether its existence is a means to pressure schemes to deliver on the Accord or, in fact, it will be used to mandate asset allocation**.**
12. Instead, rather than introducing the backstop power via regulations, the Government should be clear about their intended pipeline of suitable investment opportunities, continue to remove barriers to investment, and at pace.
13. **Pension protection levies:** specifically on the Pension Protection Fund (PPF) levies, we welcome the steps taken to provide the PPF with greater flexibility to reduce its levy to zero. In line with the broader ambition laid out by the Government for the pensions industry, we are suggesting an amendment to ensure the Bill does not inadvertently hamper its own aims of incentivising UK investment.

14. Please note that our response below is set out in the order as laid in the Bill, as opposed to by priority.

The Pension Schemes Bill – input

Part 1, Defined Benefit Pensions, Chapter 2: Powers to Pay Surplus to Employer

15. We are broadly supportive of greater flexibility in the treatment of DB funding surpluses, particularly if this makes it easier to make one-off discretionary payments to members. However, these new flexibilities must be implemented carefully to protect trustees' fiduciary duties to act in the best interests of members.
16. We encourage any innovation that could improve member outcomes in light of improved funding levels, particularly in the context of the cost of living pressures facing millions of people across the UK. Whilst it is possible to provide discretionary pension increases to pensioners and deferred members, this is never a clearly defined amount of money.
17. Like many others in the industry, we continue to strongly encourage a more practical solution taking the form of one-off discretionary lump sum payments to members, which are not normally possible under current HMRC rules without penal tax charges.
18. This is especially relevant for shared-cost arrangements, like many sections of the RPS, whereby members often pay a significant share of the cost of benefit accrual and deficit contributions, if required. This would be a missed opportunity for the Bill so we would appreciate clarity as to whether this is intended to be picked up by other legislation (for instance by reform to the wider tax regime for surplus extraction) in due course.
19. We are firmly against any form of mandation in this area and welcome Government's proposals to introduce a statutory override.
20. This policy, and any associated guidance from The Pensions Regulator (TPR), must make a clear distinction between open and closed DB schemes.
21. Open DB schemes, a cornerstone of providing pensions adequacy, often intentionally operate with a significant Technical Provisions surplus as a key component of their long-term sustainability which can act as an important buffer to fluctuations in the level of investment returns.
22. Any conversation focusing on pension adequacy must consider open DB within a cohort of solutions that can achieve the desired outcome.
23. The Government must take care to avoid any new flexibilities inadvertently placing undue pressure on the funding and investment strategies of open DB schemes.

Part 2: Defined Contribution Pensions, Chapter 1: Value for Money

24. We support the approach of the Bill setting out the high-level elements of the framework, with the detail of the requirements to be covered in supporting regulations.
25. It remains important that the final framework to support value for money can be delivered by the industry in an efficient way and does not impose excessive governance costs.
26. We had concerns about the lack of granularity within a potential Red/Amber/Green format to the ratings and are encouraged by the change to "fully delivering/intermediate/not delivering" and the possibility of there being more than one intermediate grade within the regulations.
27. Good member outcomes will be supported by good long-term investment returns, particularly for younger DC members. We therefore request that the final regulations do not give too much focus to short-term investment returns.

Part 2, Defined Contribution Pensions, Chapter 2 – Consolidation of small dormant pension pots

28. We support the principle of small pot consolidation, although it will be important that it can be operated and implemented in a simple and efficient way to minimise administrative burdens, and associated costs, on schemes.
29. We consider it appropriate for the consolidation approach to start with a low pot threshold such as the £1,000 one chosen.

Part 2, Defined Contribution Pensions, Chapter 3 – Scale and Asset allocation

30. The Trustee responded to the consultation 'Unlocking the UK pensions market for Growth' (the Consultation) in January 2025, specifically to put forward criteria for exempting the Industry Wide Defined Contribution Scheme (IWDC) – the DC arrangement of the RPS – from its proposed policies on DC consolidation, on the premise that:

30.1. *The scale of the RPS supports good investment outcomes*
The hybrid nature of our arrangements means that the IWDC supports the Government's productive finance agenda and fulfils the objectives that these proposed policies on DC consolidation seek to achieve; and

30.2. *The RPS serves the rail industry*
The IWDC provides significant value to the rail industry and its members by providing DC pensions alongside Defined Benefit (DB) on a joined-up basis.

31. We welcome the Government's intention to exempt schemes that have connected or concurrent DB accrual and where the scheme is only available to a group of related but not legally connected, employers, as it sets out in its recent response to the Consultation.

32. This response, in conjunction with our discussions with government officials and the drafting of the Bill (Chapter 3, Part 2, Chapter 3, clause 38(4)(b) references 'hybrid schemes' may be made exempt by regulations) provides us with strong comfort that the IWDC will be exempt from these requirements.

33. We would request that the regulations that enforce the exemption are unequivocal in this respect.

34. Along with much of the industry, and indeed the wider financial services sector, we oppose the introduction of s28C in the Pensions Act 2008 as set out in Part 2, Chapter 3, clause 38(12) of the Bill, which will allow Government to mandate asset allocation.

35. The RPS has invested in the UK for many decades without the need for mandation by Government. We are supportive of investing in UK private markets, subject to this being in members' best interests and there being suitable investment opportunities available. As of 31 March 2025, over a third of our Assets under Management (AuM) are invested in the UK. Although at this time we are not comfortable putting our name against the Mansion House Accord, we will continue to use the scale of the RPS to actively invest productively and fully expect to meet the aims of achieving 5% in UK private markets within the default strategy of the IWDC.

36. Instead of introducing s28C – which contains excessively broad discretions for the Secretary of State to direct investments or set targets – we believe the Government should continue its endeavours to work alongside the pensions industry to remove barriers to investment, and develop a pipeline of investment opportunities and at pace. This would not only benefit those already materially investing in the UK, but encourage the response desired from those lagging on this position. The whole UK ecosystem must be considered, including UK public equity, listing rules to ensure that UK innovation and companies remain in the UK and other considerations, not least the Fiduciary duty of pension scheme trustees.

37. Pension schemes must invest in a way which best aligns with DC members' needs and in line with fiduciary duty.

Part 2, Defined Contribution Pensions, Chapter 5 – Default pension benefit solutions

38. We passionately believe in the importance of a good pension providing retirement income adequacy, and we are supportive of steps to improve DC member outcomes, including the requirement for DC schemes to make available default pension benefit solutions at the point of retirement.

39. DC members face very difficult decisions as they approach retirement, and they require solutions to navigate these challenges and not just a 'pot of cash'.

40. DC members should have access to value-for-money solutions that can facilitate a value- income in retirement whilst maintaining the flexibility to exercise their pension freedoms.

41. We support the Bill's proposal allowing DC schemes to collaborate with other schemes in delivering these solutions, provided it enhances outcomes for members.

42. DC schemes will need to implement default pension benefit solutions before multiemployer CDC is available, so we expect that most schemes will choose drawdown as the default. This poses a potential risk to the uptake of CDC.

Part 4: Miscellaneous, Clause 95 – Pension protection levies

43. We welcome provisions in the Bill that remove the legislative restrictions that the annual levy cannot be raised by more than 25% of the previous year's levy estimate. These restrictions have prevented the Pension Protection Fund (PPF) from reducing the annual PPF levy to zero, should it consider appropriate to do so.

44. This is an extremely encouraging development, especially taking into account the high sums that the RPS and British Transport Police Force Superannuation Fund (BTPFSF) contribute to the annual PPF levy (more than £26 million in 2024, which was more than 26% of the overall levy estimate).

45. Current legislation requires that at least 80% of the annual levy is risk-based. No changes to this restriction are proposed within the Pension Schemes Bill.

46. Risk-based levies have been calculated by the PPF with reference to a combination of: (i) the size of the scheme's PPF underfunding (on a PPF "stressed and smoothed" basis, which takes into account the scheme's investment strategy), and (ii) insolvency risk. Importantly, where there is no PPF underfunding then no risk-based levy is paid (regardless of the sponsor's insolvency risk). In contrast, even the schemes with the strongest of covenants pay a risk-based levy (if they have a PPF underfunding) – the best they can achieve is a levy band 1 rating, to lower their levy as much as possible.

47. Scheme-based levies are calculated by reference to the size of the PPF liabilities (regardless of funding level / the value of the scheme's assets).

48. Our concern is that leaving this 80% risk-based restriction in place could materially impact schemes that are open to new entrants, if the PPF decides that it needs to raise material levies in the future.

49. This is because, in years to come, more and more closed schemes will be at or beyond their date of significant maturity. Under the Pension Regulator's new funding code these schemes will be funding on a low dependency basis with a "low risk" investment strategy and, accordingly, would not be expected to have a deficit on a PPF stressed and smoothed basis. Therefore, there would likely be a much smaller pool of levy payers that would be subject to risk-based levies – this being mainly open schemes. Most open schemes are, by the nature of their remaining open to new members, would mostly have strong covenants. In our view, it would be inappropriate for open schemes to meet the vast majority of any future levy, and it is important that the legislation does not hamper the PPF's ability to raise a future levy in an equitable manner.

50. If a material PPF levy is needed in the future, then with the benefit of hindsight the industry might well look back and view that those closed schemes that had moved to significant maturity over that interim period, had enjoyed a PPF levy payment "holiday", which in retrospect they should not have done. Removing the 80% risk-based provision should allow the PPF to levy those schemes in an equitable way, if it is considered appropriate to do so under consultation with levy payers.

51. Furthermore, the evolution of any future deficit of the PPF could arise from funding strain within the existing PPF cohort of liabilities, without any link to the entry of schemes in the future, for example, as a consequence of legal risk (such as the Lloyds judgements regarding GMP equalisation). The PPF noted in 2023 that "the impact of legal risks on the PPF's funding and claims has the potential to be significant". Akin to the payment holiday point above, this could also be viewed as all relevant schemes having not paid sufficient levies in the past, if this risk were to materialise.

52. In summary, we consider there are circumstances where it would be appropriate for any future levy to be more (or fully) scheme-based rather than risk-based, and we consider it would be appropriate for legislation to be amended to allow for this eventuality. To ensure that this approach would be equitable for schemes of all sizes, we conducted analysis across a sample of RPS Sections of different sizes. Our analysis concluded that a pure scheme-based levy would impact all Sections in the same way, regardless of size. We would be happy to share this analysis with the Committee if helpful to your discussions.

53. Furthermore, this 80% risk-based restriction is also at odds with the government's objectives of encouraging schemes to invest in UK productive assets, which in themselves carry a prudent level of risk, but a level that would be penalised under the current restrictions on the PPF. The circumstances in which a PPF levy is needed in the future is likely to be one involving a fall in the value of return-seeking assets, and at the same time these schemes would be more heavily penalised by paying higher risk-based PPF levies, despite investing in the asset classes the Government is rightly aiming to champion.
54. We note that government might be hesitant to remove a restriction that has previously given PPF levy payers clarity around how levies are allocated. We believe that the RPS is the single largest contributor of annual PPF levy. Even in that context, we believe that providing the PPF with more flexibility around how any future levy is allocated is appropriate and necessary, to ensure that the levy is fairly allocated in the future.
55. While the allocation of risk and scheme-based levies has been well-supported by the industry in the past, that is unlikely to continue to be the case going forwards, noting that the risk in the PPF universe will diminish over time as closed schemes mature. Industry support for change was highlighted by the PPF in its response to the 2022 PPF levy consultation: *"We received strong support for seeking legislative change to increase flexibility in relation to setting the levy estimate".*
56. The impact on open schemes of retaining this 80% risk-based provision is even greater for shared cost schemes like the RPS, where active members meet 40% of the cost of accrual – including an allowance for PPF levies. Our 95,000 active members therefore contribute a percentage of their pay to meeting the cost of PPF levies.
57. We have discussed this proposed amendment with the PPF, who agree with the sentiment behind removing the restriction that at least 80% of the levy must be risk-based. Indeed, the PPF have publicly commented that it would be desirable to have the flexibility to raise a greater proportion of scheme-based levy (more than 20%).

Summary

58. We appreciate the dynamism that this Government has shown to address long-standing issues in pensions at pace, and its commitment to championing our sector.
59. We are broadly supportive of the Bill, however in order to ensure that the policy areas covered align with the intent behind the provisions, we hope that Government considers our feedback, the opportunities we present, and – where suggested – makes the amendments to legislation set out above.