Pensions Schemes Bill
Bill Committee Submission

Overview

Clara-Pensions was established in 2017 as the member-first consolidator for defined benefit pension schemes and is proud to be the first and currently only superfund approved by The Pensions Regulator.

There is significant potential and demand in the superfund market and superfunds represent a significant opportunity to secure member pensions, derive benefits, lower costs and improve governance and standards. Enabling scale will also drive further investment in UK productive assets.

However it is notable that almost four years on we are still the only superfund in the market. If the market was working to its full potential, you'd have seen other consolidators appear by now. It is essential that this legislation addresses the challenges we have faced under interim guidance and enables this market to grow and flourish.

This submission to the Bill Committee provides Clara-Pensions' observations on Chapters 3 to 6 of the Pension Schemes Bill. We broadly welcome the draft legislation, particularly its progress toward:

- Enhancing stakeholder and market confidence through clear legislative momentum.
- Establishing rigorous yet practical authorisation processes that prioritise member protection.
- Broadening access for members to beneficial financial outcomes through 'PPF+' scenarios, providing improved alternatives compared to partial buy-outs.
- Simplifying the onboarding process by replacing existing gateway tests, thereby reducing barriers to trustee decision-making. While this has been the subject of much consideration, it is our view that the gateway tests have proven anti-competitive and have held back the development and growth of the Superfunds market.

We are also calling on the government to direct The Pensions Regulator (TPR) to embed the new features of the bill within the Interim Guidance as swiftly as possible. Doing this will help support the Superfund market to continue to grow, well in advance of the time it will take the Bill and associated secondary legislation to come into effect.

However, it is our position that there are key areas in the Bill that would benefit from further refinement to fully achieve its intended outcomes. On the basis of our direct experience as the only Superfund in operation, this submission suggests improvements in:

- **Events of concern** – clarifying the breadth of the Regulator's powers
- **The financial threshold regime** – cure, remediation and market dislocation
- **Capital adequacy threshold** – measurement and monitoring
- **Onboarding condition (d)** – time period (one year)
- **Buffer capital** – permitted usage

- **Active members** - breadth of the Regulator's powers

We would be pleased to provide oral evidence to the Committee as it considers the chapters 3 to 6 of the Pensions Schemes Bill.

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1. **Events of concern -** clarifying the breadth of the Regulator's powers

The draft Bill introduces a comprehensive list of circumstances classified as 'events of concern', triggering extensive powers for The Pensions Regulator (TPR). While we acknowledge the need for robust regulatory oversight to protect member interests, we believe the scope and application of certain powers within the proposed regime warrant further clarification and refinement.

However, our concerns with the legislation as it is currently drafted are as follows:

- **Definition clarity** - The term "member of a superfund group" currently lacks sufficient clarity. Ambiguities exist regarding which entities fall within the scope of TPR's directive powers, risking inconsistent interpretation. Clarification is essential to provide certainty to investors, trustees, and administrators about their obligations and potential liabilities.
- **Extent of TPR's directive powers** (Section 82(1)(b)) - This provision allows TPR to instruct entities to take actions not previously included in an agreed response plan. While some flexibility is necessary, unlimited discretion creates uncertainty, potentially exposing entities to unexpected financial and operational risks. This uncertainty significantly reduces investor confidence and makes it harder to attract capital to superfunds.
- **Immediate exercise of powers without approved plans** (Section 82(1)(c)) - Permitting TPR to use these directive powers immediately after an event occurs - even before a response plan is submitted or approved - further compounds this uncertainty. It risks breaking down the sectionalised model on which superfund investments depend, potentially spreading liabilities from one isolated scheme section to the broader superfund group. This would contradict the core principle of containing risks within individual sections and protecting the integrity of investors' commitment

To address these issues, we recommend that the Bill:

- Provide explicit statutory definitions or regulatory guidance clarifying the entities included within the 'superfund group'.

- Introduce reasonable constraints or conditions around TPR's ability to direct actions beyond those outlined in an approved response plan.

- Implement procedural safeguards to prevent premature invocation of Section 82 powers, ensuring that trustees and responsible entities have adequate opportunity to propose proportionate responses before regulatory interventions are enforced.

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2. **The financial threshold regime –** cure, remediation and market dislocation

The introduction of clear financial thresholds within the Pension Schemes Bill is positive, providing vital transparency for schemes and regulators alike. However, we have identified important gaps compared to the interim regime currently in place, which could inadvertently introduce instability and reduce investor confidence.

Specifically, we have the following concerns

- **Lack of explicit mechanisms for curing breaches -** Unlike the current interim regime, the Bill does not outline how schemes should correct temporary or minor breaches. Without such provisions, schemes risk immediate regulatory escalation over manageable financial issues.

- **Absence of remediation frameworks -** The Bill lacks clear pathways for broader remediation plans, which could address breaches proactively. This omission limits trustees' ability to manage financial risks effectively and maintain investor confidence.

- **Limited flexibility in managing market dislocations -** Exceptional market volatility can cause temporary breaches unrelated to a scheme's fundamental health. The current drafting provides insufficient flexibility for schemes and regulators to navigate such scenarios effectively.

To address these issues, we recommend that the Bill:

- Introduce explicit provisions in the Bill or accompanying regulations allowing schemes to propose corrective ("cure") plans to manage temporary breaches of financial thresholds.

- Establish clear regulatory guidance for remediation strategies, enabling schemes to systematically address breaches and restore compliance without triggering undue regulatory intervention.

- Provide regulatory discretion or clearly defined processes for temporarily relaxing financial thresholds during significant market disruptions, ensuring schemes can weather exceptional volatility without permanent structural damage.

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3. **Capital adequacy threshold –** measurement and monitoring

The definition of the 'capital adequacy threshold' set out in the Pension Schemes Bill is both sensible and workable. However, the practical implementation of this threshold, particularly around the timing of its measurement and the approach to ongoing monitoring, raises issues that merit further refinement.

Specifically, we have the following concerns:

- **Timing of initial capital adequacy measurement (Section 58(2)(c)) -** The current drafting requires the capital adequacy threshold to be met immediately following a superfund transfer. This contrasts with the pragmatic approach established under the interim regime, where capital adequacy assessments occur earlier in the transaction process, providing greater certainty for all parties involved.

- **Scope of ongoing monitoring requirements -** Under the interim regime, the capital adequacy threshold primarily informs initial capital injections and permitted profit extraction. However, the Bill elevates the threshold to an ongoing actionable trigger. This introduces potential instability, as routine market fluctuations could inadvertently activate regulatory intervention.

To address these issues, we recommend that the Bill:

- Be amended to align the timing of capital adequacy measurement with current interim regime practices, enabling earlier assessments to reduce transactional uncertainty.

- Clarify through the legislation or associated regulations that ongoing capital adequacy monitoring serves as a guiding metric rather than a continuous actionable threshold, thereby preserving operational stability.

- Specifically, change the wording in Section 58(2)(c) from "will be met" to "likely to be met," clearly specifying within regulations the earlier stage at which this likelihood assessment should occur.

- Alternatively, dispense with or revising the member notice requirements under the Preservation Regulations, allowing boundary condition assessments to continue pragmatically up to a later date.

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4. **Onboarding condition (d) –** one year time period

The Pension Schemes Bill introduces a requirement under onboarding condition (d) that there must be a ‘very high likelihood’ of meeting the technical provisions threshold within one year of application. While the intent behind this condition - to protect scheme members and secure financial stability - is understandable, we believe setting a fixed one-year timeframe within primary legislation poses significant practical and market challenges.

Specifically, we have the following concerns:

- **Impact on capital requirements and pricing -** Clara’s analysis indicates that shifting from the interim regime's five-year timeframe to the proposed one-year test could materially increase superfund capital requirements - potentially by up to 15%. This higher capital demand would significantly narrow the competitive advantage superfunds currently offer compared to insurance buy-outs, potentially reducing their attractiveness as a viable consolidation option.

- **Inflexibility in the primary legislation -** Including a rigid one-year timeframe directly within primary legislation limits regulatory flexibility and constrains the ability to adapt requirements in response to market conditions, investment strategies, or member needs.

- **Disruption of the current balanced approach -** The interim regime has successfully balanced strong member protection with market viability by allowing a longer timeframe, ensuring schemes can benefit from prudent investment strategies. The proposed one-year timeframe deviates from this carefully established balance.

To address these issues, we recommend that the Bill:

- Remove the explicit one-year timeframe from the primary legislation, deferring this specific detail to regulations that can be more easily adapted through consultation.
- Consult with stakeholders to determine the most appropriate timeframe, balancing the dual objectives of member security and sustainable market competitiveness.
- Ensure any revised timeframe aligns with established, practical market experience under the interim regime, preserving the superfund model's operational effectiveness and attractiveness.

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5. **Buffer capital –** permitted usage

The Pension Schemes Bill introduces important safeguards around buffer capital, intended to secure member benefits. However, as drafted, Section 66 imposes excessively narrow restrictions on how buffer capital can be utilised, potentially limiting essential operational activities and practical investment management functions.

We highlight the following specific issues:

- **Excessively restrictive definition of 'permitted usage -** Section 66 currently restricts buffer capital release solely to situations involving full liability satisfaction, insurance buy-out, or permitted profit extraction. This narrow approach overlooks essential routine operational activities such as paying fees to fiduciary managers, advisers, custodians, banking providers, taxes, collateral postings, and necessary transactional operations.
- **Operational impracticality -** Such rigid constraints risk making day-to-day management of buffer assets unworkable. These restrictions could significantly undermine the efficiency and stability of superfund operations by preventing critical financial management activities.
- **Deviation from established interim regime practices -** The interim regime successfully accommodates routine activities through clear, regulator-approved covenants. Omitting similar flexibility from the Bill risks disrupting proven practices, adversely affecting operational effectiveness and investor confidence.

To address these issues, we recommend that the Bill:

- Explicitly broaden the definition of permitted buffer capital usage within the Bill or associated regulations, clearly allowing essential operational expenses including investment management, advisory fees, taxation, collateral management, and similar routine activities.

- Alternatively, delegate authority to The Pensions Regulator via regulations to establish operational guidelines that reflect current effective market practices, ensuring a practical and proportionate approach to buffer capital management.

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6. **Active members –** scope of restrictions

We agree that superfunds should not take on active members at the point of transfer. However, as currently drafted, Section 58(1)(b) is too restrictive in that it:

- **Prevents partial transfers** - It could block transfers of deferred or pensioner members where a small number of active members remain in the ceding scheme.
- **Limits future flexibility** - It may also prevent transfers of active members at a later date, once their active status ends.

We recommend refining the condition to allow transfers where no active members are included, even if the ceding scheme retains some.

Further information on Clara and our transactions to date

Clara-Pensions was established in 2017 and is the member-first consolidator for defined benefit pension schemes. We have a single objective: a secure and certain financial future for all our members. Our ‘bridge to buyout’ model leverages scale to reduce costs, improve governance, and ensure readiness for a future buyout by an insurance company.

Each scheme entering Clara is placed in a separate section, supported by ring-fenced additional capital from our investors, creating a significant funding buffer. To date we have completed four deals:

1. **Sears –** In November 2023, Clara made history with the industry's first-ever pension superfund transaction. It is providing a safer home for the £590m scheme with 9,600 members that had no active sponsor and was effectively orphaned. To support member security, Clara injected an additional £30m of capital into the fund.

2. **Debenhams –** In March 2024, 10,400 members of the Debenhams Retirement Scheme transferred into Clara rescuing it from PPF assessment. The additional capital Clara injected meant members will now receive 100% of their promised pensions alongside backdated payments after benefits were cut during PPF assessment.

3. **Wates –** In December 2024, Clara provided a solution for a scheme with an active sponsor, transferring 1,500 DB members and roughly £200 million in assets, along with a £19 million one-off funding injection from Wates. The transaction demonstrated that

consolidation via superfunds is a viable option for profitable sponsors seeking to enhance member security while focusing on their core business.

4. **Church Mission Society (CMS)** – In June 2025, Clara welcomed 730 members of the £55 million CMS Pension Scheme in its first transaction with a not-for-profit sponsor. It also marked the debut of Clara's 'connected covenant' model, combining its capital with an ongoing guarantee from CMS. The deal strengthens member security while allowing CMS to prioritise its charitable work.