Bill Committee Inquiry Response

Written evidence: Bill Committee - Pension Schemes Bill

People's Partnership on Defined Contribution Schemes

26 August 2025

About People's Partnership

1. People's Partnership operates the People's Pension, one of the UK's largest defined contribution (DC) master trust pension schemes, with over £35bn Assets Under Management (AUM) and over 7m savers. As a business without shareholders, we reinvest our profits to help our members build financially stronger lives. People's Partnership's history stems from providing workplace benefits to the building and construction sector and a significant proportion of our members are low and middle-income earners; just under 2m members, contributing £4.5bn per annum, are actively saving into the scheme.

2. People's Partnership announced in October 2024 that People's Pension had reached £30bn AUM and that it was targeting investment in a wider range of asset classes. Subsequently, in January 2025[1] we stated that People's Pension would target investing in private markets with an aspiration to grow this allocation to £4bn by 2030. We were one of the 17 signatories as part of the Mansion House Accord[2], May 2025.

3. People's Pension is one of the fastest growing asset owners in the UK and expect to have £60bn AUM by the end of 2030. As asset owners, we work with our Trustees to select the allocation of capital on a domestic and global scale – as per the appointment of Amundi and Invesco to manage £28bn in assets in February 2025. The majority of our members assets are managed directly, thus allowing nimble and more flexible implementation, greater cost control, the ability to incorporate our Responsible Investment policies and create more bespoke investment mandates. We believe this sets us apart from other UK DC workplace schemes. We are a financial services business (commercial but without shareholders) so our investment arm is not a revenue stream for shareholders, but for the benefits of savers.

4. People's Partnership commissions independent research on key issues to help drive better policy. This includes research on adequacy by the Resolution Foundation in October 2024[3] and research, demonstrating that scale enables pension providers to invest in private markets at a reasonable price, by Toby Nangle in February 2025[4]. People's Partnership also campaigns on a range of issues such as 'pension transfers'[5] and 'value for money'[6] in order to see better outcomes for savers.

[1] The People's Pension targets investing up to £4 billion into private market assets - People's Partnership
[2] People's Pension reaffirms private markets and UK investment target after signing the Mansion House Accord - People's Partnership
[3] Perfectly-Adequate.pdf
[4] Achieving-critical-mass-investing-in-private-markets-report.pdf
[5] The People's Pension calls for greater transparency and collaboration in response to FCA pensions consultation - People's Partnership
[6] Pension industry poised to shift focus from cost to value as 'Pound for Pound' initiative unveiled - People's Partnership

Summary

5. The Pension Schemes Bill is a pivotal moment in pension reform and People's Partnership strongly supports the measures relating to workplace DC policy, as it will deliver better outcomes for savers and improve the workplace pension system whilst continuing the success story of automatic enrolment. The Bill builds on many years of consultation and much of the Bill content can be considered 'settled' policy, with some measures being inherited from the last administration. We hope that the measures, including those developed under the previous administration[7], continue to command cross-party support. Whilst technical amendments to the Bill may be made in order to ensure the legislation fits the policy intent, we consider the policy intent and the core drafting of the Bill to be sound.

6. People's Partnership strongly supports and is pleased to see:

   6.1. DC megafunds: **scale and consolidation** will provide better outcomes for savers and drive greater investment into the UK economy.
   6.2. Measures to enable **consolidation** of contract-based pensions, with appropriate safeguards to protect savers.
   6.3. The inclusion of **Value for Money** metrics within the Bill as it is vital that industry professionals, employers, advisers, and savers better understand the real value that is offered by different providers. Shifting the market from a focus on charges to a focus on value is critical to the success of the Government's policy agenda.
   6.4. The introduction of default consolidator schemes: the most effective way to solve the dormant **small pots** problem.
   6.5. **Default retirement products**, which will transform DC pensions from being a tax advantaged savings product to being a pension product capable of paying an income in retirement.

7. People's Partnership understands why mandation has been considered as part of the Bill but does not agree with the government's approach. We suggest that the measure should 'sunset' with the dissolution of parliament and that Mansion House Accord is a better approach than mandation. People's Partnership is concerned that mandation will create practical and political challenges for pension scheme investment in a way that could ultimately harm pension savers further down the line – even if that is not the immediate intent.

8. Whilst the Bill is significant in its scope and impact, it only focuses on the workplace pensions market (those providers primarily selling products to employers looking to fulfil their auto-enrolment duties) not the retail market (providers who sell to individuals, and who are not authorised to take direct contributions for the purposes of auto-enrolment). The majority of consumers do not recognise the distinction between different types of providers or regulatory regimes, so it is important that these measures cover as much of the market as is practicable to ensure as many savers as possible benefit from the reforms. The issue of pension transfers has not been included, which we believe is a missed opportunity and should be addressed.

[7] Addressing the challenge of deferred small pots, Helping savers understand their pension choices: supporting individuals at the point of access, and Value for Money: A framework on metrics, standards, and disclosures

9. As one of the largest UK DC schemes, People's Pension is already well positioned to embrace the measures in the Pension Schemes Bill 2025 as it becomes law. The impact of the changes on the pensions sector is positive and it will benefit savers, but there will be a number of years where the pensions sector will be dealing with significant change on multiple fronts and therefore the sizable compliance cost and disruption should be acknowledged from the outset. For example, we estimate the cost of the Default Pension Benefit Solution (DPBS) – the introduction of a default decumulation product that will allow savers to receive a regular income - compliance process to be £8m for People's Partnership and the People's Pension. It is not possible to accurately cost other statutory requirements ahead of secondary legislation being released.

<u>Relevant Bill Chapters</u>

Chapter 1: Value for Money

10. People's Partnership supports the creation of value for money metrics for workplace DC schemes, mirroring similar proposals within the FCA's regulatory perimeter. They will improve the workplace pensions market by supporting competition: providing transparent, consistent information to employers and market intermediaries about the quality of pension schemes.

11. Value for Money metrics will help refocus competition in the workplace pensions sector away from a narrow focus on cost/ charges and towards a broader assessment of the value offered by a pension scheme. This is because charge information will be placed in the broader context of the value offered by a pension scheme, including investment performance net of charges. Refocusing competition is critical to the Government's broader pension reform objectives. Too much focus on workplace pension scheme charges, at the expense of broader considerations of value, pushes pension schemes away from investment in productive assets due to the intrinsic higher costs of investing in these assets.

12. Pricing/cost needs to be viewed from two angles: a member perspective and an employer perspective. Large employers and advisers are able to drive-down pension provider costs through intense competition for their business. However, the focus on low costs leads many pension funds to invest into 'cheaper' asset classes that deliver lower returns (and therefore a smaller pension pot), rather than for example private markets which are more expensive to access but produce higher returns. Corporate selection processes need to move away from cost as the key metric, and instead consider cost in the context of investment returns and the 'pension pot' delivered for the saver. From a member viewpoint, costs and charges are clearly important as they impact the retirement quantum. This means that price should still be an important consideration that is taken into account when assessing value at a member level.

13. Further detail on Value for Money is expected in the regulations and also in the FCA's rules for contract-based schemes. The powers taken in the Bill are, largely, enabling powers so that the impact on schemes may be specified in more depth in regulations and fine-tuned if necessary. People's Partnership is content with this approach.

14. People's Partnership strongly supports the Government's commitment to shift the focus from 'cost' to 'value'. The £4£[8] industry initiative, set up by People's Partnership, is intended to support this fundamental change in the market by trialling the proposed metrics with a pilot group of workplace pension providers. We have been working with the Australian firm SuperRatings - who have over a decade's experience helping Australia's superannuation industry deliver value for members. The aim is to provide pension schemes, government and regulators important insight into how the metrics work and help deliver the policy intent to move the market towards value.

Chapter 2: Small Pots

15. People's Partnership supports the powers contained in the Bill to consolidate small, deferred pension pots. 'Small pots' are common given that workplace pensions are offered to employees and when these employees leave their job, they often leave behind a 'pot' in their previous employer's pension scheme. These saving pots can be very small, potentially only a few hundred pounds. Following consultation, there is consensus in the pension sector that small pots should be consolidated as they are a source of inefficiency and cost for both savers and providers. The final report of the small pots delivery group[9], formed by the DWP to explore policy options and make recommendations, sets out there are 13m small, deferred pension pots[10] in the UK workplace pension system.

16. The proposed consolidation system outlined in the Bill is the right way forward for three reasons:

    16.1. Requiring consolidation to a new class of "consolidator" schemes, which will be held to a higher regulatory standard, will protect consumers. As consolidation will happen on an "opt out" basis, it is important that consumers are protected if they do not make an active choice.
    16.2. Requiring the movement of pots once, to a single consolidation destination per individual will help reduce the frictional costs associated with transferring a pension pot.
    16.3. Allowing multiple consolidators will help address the risks to competition that might arise if small pots were consolidated in a single scheme.

17. People's Partnership is very pleased to co-fund a feasibility study, led by Pensions UK, which is looking at the design of a new IT system to facilitate the consolidation process through enabling communication and reliable data matching between providers. People's Partnership believes it is important for the pensions industry to take a lead in resolving this issue.

Chapter 3: Scale and Asset Allocation

18. The Bill progresses core measures stemming from Phase One of the Pensions Investment Review[11]. The Review is clear that the workplace pensions market needs reform in order to better serve savers and the wider UK economy. The Review concludes that UK pension funds should invest more in the UK economy; creating scale pension schemes capable of

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[8] Pension industry poised to shift focus from cost to value as 'Pound for Pound' initiative unveiled - People's Partnership
[9] Small Pots Delivery Group Report
[10] Defined as under £1,000
[11] Pensions Investment Review: Final Report – GOV.UK

making significant, strategic investments in the UK economy will help address underinvestment[12] and, importantly, will also benefit DC pension savers. Pension schemes in jurisdictions including Canada and Australia can demonstrate that pension scheme scale brings greater internalisation of investment capability within pension schemes, greater scale economies in administration and higher investment returns[13].

19. 'Achieving Critical Mass',[14] published in February 2025, commissioned by People's Partnership and written by Toby Nangle, states that the key to accessing private markets effectively is fee compression. The report finds that there are two paths that enable asset owners to allocate capital to private markets at an acceptable cost: **(1)** They build sufficient scale to insource investment management expertise such that the asset owner can access investment opportunities directly. **(2)** Asset owners can collaborate to develop an industry aligned asset manager, like Industry Fund Managers (IFM) from Australia, for example. While the report acknowledges challenges, it highlights that the '*prize*' of large-scale providers internalising investments could be '*close to a billion pounds a year in member savings by 2030.*'

The Scale test:

20. The scale test will require pension schemes to have more than £25bn in a single default arrangement. People's Partnership believes it will have a positive impact by:

    20.1. Requiring schemes to have sufficient scale to credibly operate in the workplace pensions market, potentially access scale economies and insource investment expertise.

    20.2. Reducing the degree of internal fragmentation present within pension providers so that they can access the scale economies that are only available to those offering fewer default funds.

21. The Bill proposes creating the concept of a "main scheme default arrangement" (MSDA) in law. This is a necessary step view, fulfilling two functions:

    21.1. The MSDA concept is necessary to provide a fund structure that can be assessed for size. There is no settled consensus on the exact point at which private markets investment at an acceptable price point becomes possible for asset owners. The choice of £25bn as the scale threshold is within the range of evidence-based figures[15].

    21.2. The MSDA concept is necessary to reduce fragmentation within the pension system by paving the way to require a similar asset allocation within default funds offered to the market and, potentially limiting the number of MSDAs offered by each provider[16].

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[12] See for example van Reenen J and Yang X (2024) *"Cracking the Productivity Code: An international comparison of UK productivity"* https://cep.lse.ac.uk/pubs/download/special/cepsp41.pdf?_gl=1*1xc5hhf*_ga*NzQ4MzIyODY4LjE3NTI2Nzk4MjY.*_ga_LWTEVFESYX*czE3NTI2Nzk4MjUkbzEkZzAkdDE3NTI2Nzk4MjckajYwJGwwJGgw*_gcl_au*Mzk2NDI0NzEyLjE3NTI2Nzk4Mjg. The implications for pension policy are discussed in depth in Nangle T (2025) "*Achieving Critical Mass*" Achieving-critical-mass-investing-in-private-markets-report.pdf

[13] Beath A, Flynn C, Jethalal R and Reid M (2022) *"A Case for Scale: How the world's largest institutional investors leverage scale to deliver real outperformance."* https://www.cembenchmarking.com/research/36-worlds-largest-institutional-investors-leverage-scale-deliver-real-outperformance/

[14] Achieving critical mass

[15] Achieving-critical-mass-investing-in-private-markets-report.pdf & The Scale of it

[16] Our understanding, per the final report of the Pensions Review, is that government will not set a hard cap on MSDAs but will make it harder to create new MSDAs and will incentivise consolidation into a smaller number of MSDAs in each provider. People's Pension offers one default arrangement to the entire market.

22. The definition of the MSDA itself is similar in structure to the legislation that underpins MySuper in Australia[17] (MySuper is a form of simplified DC product that has been successful in the Australian workplace pensions market). The key similarity is the proposed requirement for rights in the MSDA to be *"managed under a common investment strategy".* This is similar to the Australian requirement for MySuper funds adopt "a single diversified investment strategy". The approach of creating the concept of a main default fund in law, specifying the requirement for a common asset allocation for that fund – but not specifying what that asset allocation should be - has been successful in defragmenting the Australian Superannuation system. This approach is likely to also work in the UK.

Asset allocation:

23. The Bill contains powers that will enable the Government to instruct pension schemes to invest in certain asset classes or face severe regulatory sanction. People's Partnership is cognisant of the rationale for inclusion[18] of this reserve power, but opposes it.

24. The reserve power, if commenced, would require a pension scheme to have a percentage of AUM in certain specified asset classes (to be specified in regulations) by a given date (also to be specified in regulations but no earlier than 1 January 2030). If this test is not met and a scheme does not receive an exemption, then the legislation would prevent the scheme being used by employers to fulfil their automatic enrolment duties. If the measure has not been commenced by 2035 then the measure cannot be enacted.

25. This measure will have an impact on the market, irrespective of whether or not it is ever commenced. This is because it is not possible to invest quickly in private markets and, if the measure were ever commenced, there may not be enough time to comply in good order. Effectively, pension schemes need to behave now as though they have been mandated, irrespective of whether or not the Government commences this section of the legislation.

26. The severity of the regulatory sanction for breach of the asset allocation test is disproportionate. Failure of the test would result in the closure of the pension scheme as it would no longer be able to take contributions. We can find no example where a private commercial organisation would face closure by Government simply because its investment strategy differs from the Government's preferred strategy. The Mansion House Accord in May 2025[19], which not only outlines pension funds' ambition to invest in private markets but also outlines the Government's commitment to ensure a pipeline of investible projects is the right approach: collaboration rather than mandation.

27. The potential negative consequences of this measure are:

    27.1. Wider politicisation of pension scheme investment. Future governments may see it as acceptable to mandate investment and do so in ways that contradict the policies of previous governments. This is likely to be harmful to the savers' investments in workplace pensions.

[17] Superannuation Legislation Amendment (MySuper Core Provisions) Act 2012 - Federal Register of Legislation see section 29TC
[18] Enhancing Business Investment in the United Kingdom - IMF (Page 33 Point 4)
[19] Pension schemes back British growth – GOV.UK

27.2. Government may misdirect capital into poor quality investments and might be the cause of underperformance or investment losses.

27.3. Mandation could lead to too much capital chasing too few high-quality investment opportunities, pushing up the cost of investing. For example, commitments from providers to invest domestically, flowing from the Mansion House Accord, total £25bn over the next 5 years; however, ONS[20] figures show total private sector energy infrastructure investment to be £9bn in 2024, including investment by energy companies. There must be market capacity at least equal to the money committed through Mansion House Accord, otherwise this will lead to mandated investment into poor quality opportunities resulting in poor outcomes for members.

28. As mandation may politicise pension scheme investment, it is important that successive governments seek the approval of Parliament through new primary legislation before directing pension schemes to invest. It would be preferable if the mandation power sunset with a dissolution of Parliament so that a subsequent government cannot use secondary legislation passed by a different administration to direct pension scheme investment. As operators of a pension scheme, we are politically neutral and do not take party political stances. We note, though, that there is no settled consensus on the future direction of UK energy infrastructure, in which we expect to invest in line with our Mansion House Accord ambition. This is the sort of issue where a future government might use the mandation power to reverse the policy of the current Government, or create “planning blight” ahead of time by threatening its use. The political risks to which our members’ savings could be exposed is not a theoretical one and it is important that there are appropriate safeguards placed around the use of this power.

Chapter 4: FCA regulated pension schemes: contractual override

29. People’s Partnership supports the consolidation of contract-based pensions into a modern product to help drive the benefits of scale. We are clear that reducing fragmentation within pension schemes is important: building a single asset pool invested in a common strategy is critical to achieving the benefits of scale, including achieving scale economies. However, this is a challenge as many providers have a legacy book of older, contract-based pensions that are difficult to consolidate. The contract-based nature of these pensions means that they currently require saver consent to be consolidated into a modern product. This is true, even where the older contract-based product is inferior to a modern one.

30. Customer protection must underpin any process of consolidation without consent. We support the measures outlined on customer protection: we agree with the detail of the drafting in new section 117D (2) of FSMA (the best interests test) and the detail of the drafting in new section 117E of FSMA (certification by independent person) with the added suggestion that the independent person should be a legal person with permission to advise on investments[21].

[20] ONS – Figure 1 (Energy 2024)

[21] See s 53.1 of The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 and PERG 8.24.1 Advising on investments PERG 8.24 Advising on investments - FCA Handbook

Chapter 5: Default Pension Benefit Solutions

31. People's Partnership agrees that there are challenges turning DC pension savings into a retirement income. Therefore, we support the Bill's reforms requiring pension providers to offer an easy way for savers to convert DC savings into an income.

32. There are five main reasons why reform is needed:

    32.1. Research shows that retirees often struggle with the complexity of the decision making required to turn a DC pot into an income and outcomes are often suboptimal as a result[22].
    32.2. Converting capital to income in retirement where longevity is uncertain is difficult to do well because people do not usually know how long they will live, and options that make economic sense for large groups of savers, like annuitisation, are frequently unpopular.
    32.3. Structural barriers in the market militate against relying on either advice or guidance as the main means of improving saver decision making at retirement.
    32.4. Low levels of financial understanding and the difficulty of the task mean that it is not realistic to rely on financial education to resolve the decumulation challenge.
    32.5. Decision making capability usually declines during retirement.

33. Requiring schemes to offer a suitable product to their members that their members can opt out of preserves freedom of action while ensuring that the line of least resistance results in a sensible outcome for the majority. It will not be possible or desirable to completely remove individual decision making from the decumulation process. It is also not technically possible to simply pay an income to a saver without a minimal level of engagement. As a practical example, schemes like People's Pension do not have automatic access to members' bank details. However, it should be possible to streamline saver interaction at retirement.

34. The reforms as outlined in the Bill will lead to innovation in decumulation product development, and outcomes for savers will be improved by this reform over time. Providers are likely to begin to offer hybrid products consisting of a combination of flexible drawdown and an annuity, with annuitisation coming later in retirement.

35. People's Partnership is concerned about the differential impact of the FCA's targeted support proposals on the sector as targeted support will be used to support these decumulation products. As there are two overlapping regulatory regimes for workplace pensions, the FCA's proposals will require occupational pension schemes to obtain FCA permissions if they want to offer targeted support. Additionally, the interaction between Default Pension Benefit Solutions (DPBS) and targeted support is a hole in the proposed policy mix. Actions that are impermissible within the FCA perimeter will be permissible for occupational pension schemes (regulated by the TPR) and, potentially, vice versa[23]. There must be a consistent view of how guidance should operate across the sector at decumulation, in order to ensure savers are protected and supported.

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[22] https://peoplespartnership.co.uk/wp-content/uploads/2024/02/XX-TPP-2246.1123-NC-BD-Policy-report_DIGITAL_Vf.pdf

[23] For example, targeted support would not be allowed within the FCA perimeter if it related to the purchase of a specific annuity. An occupational scheme could, though, offer guidance similar to targeted support in relation to an annuity offered as a scheme rather than a retail investment.

Scope of the Pension Schemes Bill: transfers

36. The issue of pension transfers has not been included within the scope of the Bill, which we believe is a missed opportunity and should be addressed. Research has shown that almost a quarter of people surveyed admitted to taking 24 hours or less[24] to make a transfer decision. People's Partnership research also showed that over 70% of those surveyed[25] either didn't know exactly how much their new pension charged them, didn't roughly know how much they were charged, or didn't know they would be charged at all. The culmination of a lack of awareness relating to fees and charges, the absence of a value for money framework, quick decision making, and pension transfer incentives[26], expose savers to poor financial outcomes. This is a key issue which should be addressed.

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[24] 22 years of pension savings gone in 24 hours
[25] Pension transfers: Understanding member behaviour – People's Partnership
[26] Pension transfer decision making – Behavioural Insights Team