Written evidence submitted by Aegon UK to the Pensions Schemes Bill 2025 Call for Evidence (PSB48)

Introduction and High-level Comments

Aegon UK welcomes the opportunity to respond to the Pension Schemes Bill 2025 Call for Evidence.

We are providing commentary in response to Part 2 of the Bill, Defined Contribution Pensions. Our key points are set out below.

Pensions landscape transformation

1. The measures in the Pension Schemes Bill have the potential to transform the pensions landscape and improve member outcomes. We are supportive of the Bill's aims, but we do have some reservations regarding how and when the measures may be implemented. We believe the measures should be implemented in a way that causes as little disruption to members as possible. As we transition from today's world to the future landscape, it will also be particularly important that regulators of schemes and firms take a pragmatic and outcomes-based approach to implementation and compliance, avoiding wasted effort.

2. The pension market will transform in the run-up to 2030 and beyond as multi-employer schemes seek to meet the scale objectives. This will include consolidation of legacy defaults into main scale default arrangements (MSDA); merger and acquisition activity of master trust and GPP books which fail to meet the scale objective; and accelerated consolidation of single employer trusts. This will be the most significant driver of pension scheme transformation in the multi-employer world, with the new value for money (VfM) assessments being the secondary driver. It would be wasteful and unproductive to require full VfM assessments on default arrangements which will no longer exist after the scale objectives are met.

3. All multi-employer schemes will be ensuring that their MSDA is rated Green under the new VfM framework. MSDAs will have greater investment diversification, including into private assets, as set out in the voluntary Mansion House Accord, and the Government will see progression towards this from its proposed data collection. But this will be dependent on the Government's agreement to provide a steady supply of appropriate investable assets.

Definition of main scale default arrangements: as wide as possible

4. The definition of what constitutes an MSDA will be key to the success of delivering the policy intent. We strongly believe that it's the common underlying investment strategy that's important in achieving scale, not the Assets under Management (AUM) at individual scheme, arrangement or fund level, or with each service provider if there are more than one. We believe that the definition of MSDA should be as wide as possible and include assets of schemes and arrangements that share a common investment strategy under the MSDA, including where there are more than one service providers. This will need a Bill amendment.

Contractual override rules: bring this forward to 2027

5. We fully support the introduction of contractual override without members' consent sing the best interest test and use of an independent expert. This will be a key building block for the VfM Framework, small, deferred pots initiative, improving member outcomes, reducing pension fragmentation and the ability to build scale in an MSDA. The DWP's indicative roadmap sets out that the contractual override provision will be available to pension providers from 2028, the same year the VfM Framework is due to start, and one year before the Government's pension scheme fragmentation review. Moving members' policies and assets to a new arrangement is a resource heavy, costly and lengthy process and is likely to take a number of years to implement across a provider's workplace pensions book. Leaving such a short interval between contractual override and the other target dates makes the overall timetable extremely ambitious and likely unachievable. We urge the Government and FCA to bring the contractual override rules forward to 2027 and give a minimum of three-year window between this and the fragmentation review. To facilitate transfers from legacy defaults to the MSDA, we suggest instead of carrying out full VfM assessments, a more pragmatic slimmed down approach is enabled, by using the best interest' test, certified by an independent expert. This will enable pension providers to consolidate legacy defaults more quickly, avoiding wasted effort, enabling improved member outcomes quicker, and help the Government to achieve its objectives.

Reserve powers

6. The Bill includes reserve powers to mandate asset allocations and the ability to change the small pot value from £1,000. We believe these provisions could set a dangerous precedent and introduce significant risks that a future unknown Government could use these powers potentially without sufficient evidence and full consultation. There are also sections of the Bill which grant regulators very significant discretion, without clear oversight of such decisions. The current Government should think carefully about whether such 'open' powers are needed or appropriate, given that the pension market will transform over the next 5 to 10 years due to other measures included in the Bill.

About Aegon

7. Aegon is a global retirement business with a strong UK focus. We have been helping customers achieve financial security since 1831. We have over £220bn of assets under management in the UK, with £66bn in workplace propositions. We service over 3.5million customers and support over 8,500 employer schemes and manage the savings of around 990,000 members (as at 31 December 2024).

Below we have set out specific points in relation to each chapter of the Pension Schemes Bill.

Chapter 1 – Value for Money

8. The ratings and consequences set out in clauses 14(4) and 15(2) do not reflect recent pension industry discussions with the FCA. In particular, there have been discussions around the RAG rating in relation to the introduction of a second green rating, with both green ratings allowing default arrangements to remain open to new employers. We appreciate that these FCA discussions are ongoing, but it is important that the Bill is drafted in a way that allows for a range of possible outcomes here and doesn't close off any options. The current drafting needs changed.

9. Asset allocations in Clause 11(1)(b) have been drafted as though they would feed into the value assessment. We do not believe this is the intention, so this clause needs to be amended.

10. The Bill gives the Pensions Regulator power to override a scheme's RAG rating. It can improve the rating under clause 14 (5) or downrate the rating under clause 17 (7) (a). The Bill should ensure there is provision, in guidance, to set out examples of how and when the regulator can use these powers to ensure regulation and use of these powers are proportionate.

11. The Bill frequently refers to a 'scheme or arrangement' but the implications at scheme or arrangement level vary across provisions. A Bill amendment may be needed to make it clearer when the provision applies to a scheme, when to an arrangement and possibly when to both.

Chapter 2 – Consolidation of Small Dormant Pension Pots

12. We are concerned that the 'transfer notices' information set out in section 22 is too onerous on the ceding and receiving schemes. It's proposed that the ceding scheme has to set out a default proposal and any alternative proposals. We are unclear what is meant by alternative proposals. Are members to be given an alternative default suggested by the trustees, or are they expected to choose their own alternative arrangement? The small pots working group suggested that members are allocated a small pots consolidator if they don't already have one, or they can choose to 'opt-out' of the process, to keep the small pot where it is or choose an alternative destination. This is a much simpler and clearer process. Clarification is needed here, or a possible amendment.

13. Section 32 (2) gives the Secretary of State the ability to increase/ decrease the definition of the value of a small pension pot from £1,000. We believe the process for making any change needs to be significantly more robust including research on the impact of the market of any changes and other related policies, including those set out in this Bill.

Chapter 3 – Scale and Asset Allocation

Definition of main scale default arrangements

14. We strongly believe that it's the common underlying investment strategy that's important in achieving scale, not the AUM at individual scheme, fund or arrangement level, or with each service provider if there are more than one. We therefore believe that the definition of MSDA should be as wide as possible and include the assets of schemes and arrangements that share a common investment strategy under the MSDA, including where there are more than one service providers.

15. We believe an amendment should be made to enable the following to count towards the AUM for the MSDA where a common investment strategy is shared:
    a. Master trusts, with no upper limit on the number included. Currently this is limited to one master trust.
    b. GPPs, GSIPPs and Stakeholder schemes, where direct payment arrangements have been in place, including funds held by deferred members who are no longer connected to the scheme. We believe these are in scope according to section (5) (b).
    c. Single employer trusts (SET) – enabling smaller schemes to invest into a larger scheme's MSDA.
    d. 'Self-selected' investors who have actively chosen the MSDA rather than been 'defaulted' into the default arrangement.
    e. Any non-workplace pension invested in the MSDA.
    f. Section 32s originally from SETs invested in the MSDA.

16. Insurers have traditionally targeted the same types of scale benefits for members that the Bill is pursuing. We have sought to achieve this by pooling investments in unit linked structures, and also utilising shared investment building blocks to deliver at scale customer outcomes in different investment and products. We seek a broad definition of the assets counting towards MSDA scale to ensure that customers continue to benefit from this pooling and aggregation and that forced consolidation at product / scheme / individual fund level only happens when it is in the customers' best interests.

Service provider

17. The term 'service provider' should be removed from primary legislation set out in sections 28A (5) and 28B (8). This is not a commonly used term, and we don't believe it's relevant. A service provider is an operational function, such as a third-party administration (TPA) function and would not be responsible for controlling the investment universes. Some schemes will use different service providers but have the same underlying common assets. Others use the same service provider but have different underlying common assets. Instead, this could be considered in more detail as part of the government's consultation on what constitutes default arrangements.

Definition of a GPP

18. The proposed definition of a GPP set out in section 14 excludes "any pension scheme which gives members the power to direct how some or all of the member's contributions are invested". Trustees and GPP providers will control the investment universe and give members the choice to self-select from a range of funds, including the default. We assume this definition isn't intended to exclude these

arrangements as it would effectively exclude most schemes used for auto-enrolment from being counted towards the MSDA. An amendment is needed to make this clearer.

Investment capability

19. Clause 39 section 12A states that the Pensions Regulator must be satisfied that a Master Trust has ‘sufficient investment capability’. Clarity is needed on how the regulator will assess this. We suggest the Pensions Regulator sets this out in guidance, following consultation, to make its expectations clear, taking account of good market practice.

20. We strongly believe that investment capability does not have to be in-house but agree there is a need for in-house capability to govern effectively, but with the option to enter external partnerships to enable access to unique investment expertise.

21. Investment capability can also be provided equally as well, if not better, via strategic partnerships, where a master trust carries out the selection of the investment manager / fund and is responsible for its governance and oversight. The same applies to strategic partnerships between pension providers and investment managers, as demonstrated by Aegon UK’s partnerships in their newly launched private market strategies including partnering with the British Business Bank and providing a cornerstone investment into the British Growth Partnership. This strategic partnership model is an efficient way of accessing specialist expertise and access to a wider range of diversification and new funds / approaches in the market. In this case, sufficient expertise would extend to selection, oversight and structuring of strategic partnerships with the right investment managers but would likely require a lower headcount than if internal investment teams were built.

Definition of UK assets

22. The definition of what constitutes UK assets in the Bill is different from that set out in the Mansion House Accord and from that set out in the FCA’s consultation on the VfM framework (CP24/16). The pension industry needs one consistent measurable definition which is aligned to the UK Government’s growth ambition. We suggest the definition is removed from primary regulation and set out in secondary regulations following consultation.

Reserve power – mandating asset allocations

23. The Bill includes a reserve power (28C) with a sunset clause, for the Government to prescribe asset allocations held in a relevant Master Trust or GPP, including in the UK, until 31 December 2035. Section (11) gives the Secretary of State wide powers to mandate asset allocations up to this date taking into account how the Master Trust and GPP members would be affected, the impact on UK economic growth and ‘any other matters the Secretary of State consider appropriate’. The Secretary of State must also consult with the Treasury and ‘such persons as the Secretary of State consider appropriate’. For this policy to be successful, the pension industry will need a steady supply of appropriate investable UK assets. We believe this should be a key criterion considered by the Secretary of State and set out in legislation. Furthermore, we believe the Government should consult with the pension industry before mandating asset allocations.

24. We believe these provisions could set a dangerous precedent and introduce significant risks that a future unknown Government could mandate asset allocations higher than those set out in the voluntary industry-wide Mansion House Accord without a robust evidence base and full consultation with the pension industry and others. The success of the Accord will depend on the Government's ability to ensure a supply of appropriate investable UK assets, which providers and trustees believe have the potential to improve investment diversification, but primarily to improve member outcomes.

25. Asset allocations for MSDAs will form part of the VfM framework and in conjunction with the targets set out in the Mansion House Accord, this will provide additional transparency and clarity of MSDAs' investment strategies, and any changes made within those. This will give an indication as to whether the policy is successful or whether further interventions are needed, including increasing the supply of investable UK assets.

Chapter 4 – FCA-Regulated Pension Schemes: Contractual override

26. We fully support the introduction of contractual override without members' consent using the best interest test and use of an independent expert. We believe this will be a key building block for the VfM Framework and small deferred pots initiative, improving member outcomes, reducing pension fragmentation and to meet the scale objective.

27. The DWP's indicative roadmap sets out that the contractual override provision will be available to pension providers from 2028, the same year the VfM Framework is due to start, and one year before the Government's pension scheme fragmentation review. Moving member's policies and assets to a new arrangement is a resource heavy, costly and lengthy process and is likely to take a number of years to implement across a provider's workplace pensions book.

28. We are keen to start the process as early as possible and urge the government and FCA to bring contractual override rules forward by a year to 2027 and give a minimum of a three-year window between this and the fragmentation review. To facilitate this, we urge the Government to enable the FCA to publish its contractual override consultation before the Pension Schemes Bill is expected to receive Royal Assent, next April.

29. We strongly believe that carrying out full VfM assessments on legacy default arrangements providers and schemes intend to wind-up and consolidate is not an efficient use of resources. Largely it will be the same individual experts involved in this work and the consolidations. Instead of tying up valuable resources to carry out full VfM assessments and comparisons, the focus should be on consolidating those legacy strategies using the proposed contractual override rules to improve member outcomes faster.

30. We accept that it is important consolidation is made into arrangements and schemes demonstrating higher VfM. The 'best interest' test, certified by an independent expert, could effectively represent a pragmatic and slimmed down version of the full VfM assessment.

31. A current barrier on transferring GPP members to a new scheme is that active members need to confirm individually to HMRC that they are eligible for tax relief. This barrier needs to be removed for contractual override to work effectively.

32. Our understanding is that as the personal pension contract is between the pension provider and member, the ability to use contractual override is only open to the pension provider who is party to the contract. We believe that third parties, such as EBCs, should not be able to use contractual override as they are not a party to the contract. This should be made clear in the Bill or in FCA rules.

Chapter 5 - Default Pension Benefit Solutions

33. We understand that the intention is rightly for the provisions on 'default pension benefit solutions' to be drafted at a very high-level and that more detail will be set out in regulations following consultation with the industry. However, this is an extremely complex and highly individual area, and this policy appears to be the least developed.

34. It's important there is regulatory alignment between trust-based and contract-based schemes, making it a more joined-up and consistent customer experience for members who have saved in both types of arrangement. There is a provision (Clause 50) for the FCA to make corresponding rules for default pension benefit solutions, but these haven't been published, and it's unclear whether or how they will co-exist with the FCA's Investment Pathways. It would also be helpful for the government and regulators to share how the FCA's targeted support will interact / support default pension benefit solutions for both trust-based and contract-based schemes.

35. The default pension benefit solution isn't a true default, as our understanding is that members will be presented with solutions and they will need to make a choice. It's a backstop rather than a default for those who are unable or unwilling to make a choice. Members will still need to engage, for example to provide their bank details and to give consent if they are a 'transferable member' where the solution is provided via a third-party.

36. It needs to be made clear that the 'default' is only triggered once the member asks for a retirement income, not a retirement benefit (ie a tax-free cash sum). In our experience these tend to be quite different decisions. A Bill amendment may be needed here.

37. The trigger point would then be different for investment pathways, which are offered by the provider when someone who is not advised technically enters drawdown, which can be achieved by just taking the tax-free cash sum but not accessing the income element. This highlights an inconsistency in how regulations could work, which may cause member confusion. The FCA may wish to review how the various rules will interact.

38. Trustees and pension providers will be required to design default pension benefit solutions based on the characteristics of their membership, including setting decumulation strategies or drawdown rates. Clause 45 (3) requires trustees to monitor these drawdown rates and contact members if they are concerned, they are drawing down their pension pot too quickly or too slowly. We are supportive of this approach, and this may nudge members to revise how much they draw down, but it should be an individual decision based on their personal and financial circumstances.

39. We understand the government is considering an amendment to prescribe trustees to unilaterally override members' chosen drawdown rate to the default to ensure that it meets its longevity objective. We believe this would be a step too far and we do not support this.

Legislative Roadmap

40. DWP has published an indicative legislative roadmap to 2030. Some of the individual policy initiatives are reliant on other policy initiatives, for example, contractual override will help deliver the Government's scale initiative and reduce scheme fragmentation. However, this isn't expected to be in place until 2028, the same year the VfM Framework commences, and only one year before the Government's 2029 review of the initiative. As stated above we are urging the Government and FCA to bring the contractual override rules forward by a year to 2027 and give a minimum of a three-year window between this and the fragmentation review.

41. We also believe the small pots initiative should be pushed back to beyond 2030. By this time the pension scheme market will have consolidated and individual pension consolidation will be a byproduct. Furthermore, pension dashboards will be in place by then, hopefully with targeted support helping greater individual pension consolidation (although the FCA has excluded this from the initial scope). A review should be carried out in 2030 to investigate whether there continues to be a need for small pot consolidators, in what will be a transformed pensions market.

Please don't hesitate to contact me if you would like to discuss any aspect of this response.

Kate Smith

Head of Public Affairs

28 August 2025