Pension Schemes Bill Committee Call for Evidence: Phoenix Group

August 2025

About Phoenix Group

1. Phoenix Group is one of the UK's largest long-term savings and retirement businesses, managing £290bn assets under administration on behalf of our c.12 million customers. We've grown through a series of mergers and acquisitions, acquiring several well-known customer brands including Standard Life, through which we serve our customers with a broad range of products. Our scale and expertise provide us with both the opportunity and responsibility to play an important role in contributing to the UK's pensions regulatory landscape. This means using our presence and voice to advocate on behalf of savers across the UK.

2. We welcome the opportunity to provide written evidence to the Pension Schemes Public Bill Committee and we look forward to engaging with Government and Parliament throughout the progression of this important legislation.

Contact Details

3. Emma Robertson, Public Affairs Manager, emma_robertson@standardlife.com

Summary

4. The UK pension system, combining the successful launch of automatic enrolment into private pensions with a flat-rate state pension, supported the transition from Defined Benefit to Defined Contribution pensions, delivering decent outcomes at retirement. With the introduction of automatic enrolment, more than 22 million people are now saving into a workplace pension as of 2023, over 10 million more than in 2012. However, there are still major challenges. The UK's ageing demographic, inadequate level of pension savings and fragmented and complex pension market all pose risks to delivering decent outcome for pensioners. This is why key reforms are required. The Pension Schemes Bill 2025 represents a significant opportunity to modernise the UK's pensions landscape.

5. We are supportive of the underlying principles and objectives of the Bill and can see how the initiatives in the Bill will help achieve its goals of improving outcomes for savers, increasing the value they get from their pension and encouraging greater investment in the UK economy. However, for the Bill to achieve these goals and ambitious timelines, the Government must work with the industry on the outstanding legislative details in a timely manner.

Key improvements

6. **Implementation timeline -** We have identified timing and sequencing issues in the roadmap published by the Department of Work and Pensions (DWP) in the implementation of many key initiatives in the Bill. For example, the current Value for Money framework timeline poses a real possibility that industry will be unable report metrics in 2028, and small pot consolidation being implemented in 2030 puts customers at risk of losing more of their pension pots to scheme fees and hindering industry in achieving scale. With much of the details of these key initiatives to be confirmed in secondary legislation, we are concerned that industry will have limited time to prepare and execute changes key to supporting the Government's aim to drive scale across the industry, improving outcomes for savers and increasing the value they get from their pension. We would therefore encourage parliament to reassess the timelines for these key initiatives to ensure there is sufficient time for market participants to respond in the best interest of member and consumers. Alongside this, Government and regulators must engage with industry as early as possible to ensure greater levels of alignment to deliver on the Bill's objectives.

7. **Scope –** We are supportive of many of the key initiatives introduced by the Bill and the benefits these initiatives will bring to savers. We would like to see the scope of consolidation of small pension pots and contractual override to be extended to all pension schemes to allow more savers to feel the benefits of the initiatives.

8. **Scale and asset allocation -** We support the Government's ambition to drive scale and consolidation of the market through establishing minimum size main scale default arrangement. However more clarity is required from Government on the meaning of 'common investment strategy'. As drafted, this will be determined by regulations which won't be made available until the Bill has received Royal Assent. This will create a long period of uncertainty around how Master Trusts will meet the scale tests. It could lead to slower progress towards value and scale as providers 'wait and see' to understand the full implications of a strict definition.

9. **Pension Adequacy -** Our research shows that over half (54%) of all DC savers retiring between 2025 and 2060 are either not saving enough for the retirement they expect or are on track for an inadequate retirement. The Bill is an excellent opportunity to insert a requirement for this Government, and any future Government, to conduct a statutory review into retirement adequacy of the pensions system every five years to see through the recommendations of the Commission.

10. **Value for Money Framework -** We welcome the creation of a holistic Value for Money Framework to standardise metrics across the sector to support both businesses and customers. However, we have concerns about the delivery of a Value for Money Framework that supports the drive for scale and ensures each metric is viewed with equal importance both of which are essential to its success.

Part 1 – Chapter 2 - Power to Pay Defined Benefit Surplus to Employer

11. The proposals in the Bill to allow employers to extract Defined Benefit (DB) surplus are designed to unlock increased investment in the UK economy. However, we believe that the current drafting could have the opposite effect. To protect funding levels after surplus release, schemes may adopt more cautious investment strategies, reducing allocations to private and productive assets. This could undermine the Government's growth objectives.

12. Moreover, the potential for surplus extraction may lead to sponsors prioritising short-term surplus access over long-term funding resilience. Trustees should continue to prioritise member security over and above the requirements of scheme sponsors.

13. While the tests and thresholds for surplus release will be set out in secondary legislation, we would highlight that a prudent threshold for funding after surplus release is crucial to protect member outcomes and minimise long term exposure to sponsor covenants. The Government's impact assessment on the Bill has indicated that it is minded to lower the funding threshold schemes would have to meet before they share any surplus with the employer from the current buyout funding threshold to a threshold set at "low dependency". Our view is that Trustees should only enable the release of surplus over and above buy-out affordability. While there remains risk of funding deterioration, a threshold at this level would provide some protection to members as the trustee retains the hypothetical ability to secure member benefits on sponsor covenant deterioration.

Superfund Regulations

14. Under current rules, schemes can only consider a superfund option if they cannot access or afford insurance buyout and have no realistic prospect of doing so in the foreseeable future. This is because buyout provides greater certainty of benefits to members than transferring into a superfund because capital requirements for insurance companies are much higher. Buyout also

protects scheme members from the risk that their benefit might be reduced because their employer has become insolvent while the pension scheme is in deficit. An unintended consequence of the current drafting of the superfund and surplus regulations is that sponsors and Trustees could release surplus to bring (or keep) funding below buy-out affordability and subsequently look to transfer the scheme to a superfund. Any test of buy-out affordability should be backwards looking allowing for surplus release.

15. Furthermore, we are concerned that schemes may seek to manipulate member benefits in order to pass the gateway test, such as by adjusting benefits to levels that would be unaffordable via insurance. We do not consider this to be the intention of the Bill and urge the Government to ensure that the gateway test remains robust and resistant to such practices, particularly with regards to the applicability of the special provisions under Paragraph 59 (for schemes coming out of PPF assessment).

Importance of Industry Consultation

16. **We strongly urge the Government to consult early and thoroughly on the level of surplus extraction and the surrounding framework**. The proposed changes could significantly impact member security, investment behaviour and the integrity of the de-risking market.

Part 2 – Chapter 1 – Value for Money Framework

17. Overall, Phoenix Group welcomes the creation of a holistic Value for Money Framework to standardise metrics across the sector that will support both businesses and customers in making the informed decisions when it comes to their pension scheme. However, we have concerns about the Framework's alignment with the wider reforms' goal to drive for scale and its implementation mechanics currently proposed within the Bill. We have suggested ways this could be improved.

Supporting the Drive Towards Scale

18. Value for Money Framework currently comes into force after providers will likely need to act to meet the scale requirements (the min £25bn requirement, or £10bn with a plan). It is essential that Value for Money is embedded before this to ensure consolidation is done in a direction that supports improving returns for pension savers. Failure to do so creates a real risk that consolidation will move ahead with too much emphasis on low cost. Alternatively, an interim regime based on the Financial Conduct Authority's (FCA) Consumer Duty could be implemented to support the action needed to reach scale and ahead of the introduction of Value for Money Framework. Learnings from the use of this system could be applied to the Value for Money Framework to ensure that the key principle of Consumer Duty is embedded in and supported by the regime.

Metrics

19. The metrics for Value for Money Framework are set out in high level categories in the Bill and it is unclear how they will be used in determining what Value for Money rating a scheme receives. While we welcome the opportunity to feed into further consultation with the FCA, DWP and The Pensions Regulator (TPR) it is **essential that this is clarified in secondary legislation, as early as possible, with additional guidance published to expand and explain how the metrics will be used.**

20. We strongly support placing equal importance on investment performance and quality of service as well as costs and charges in the Value for Money Framework however we would like to flag an issue which may hinder this. To effectively give equal importance to investment performance it is essential that metrics used to measure investment performance are accurate and reliable. A meaningful assessment of investment performance requires historical performance data to be gathered over a large period of time, the minimum timescale being five years to account for market fluctuations and long-term investment goals. However, most default pension schemes will not have been operating for this long, making it difficult to provide a true picture of performance. In the

absence of this, unintended consequences may arise from a framework lacking focus on longer term performance, including herding, consolidation towards arrangements not proving long-term value and poor outcomes for savers.

Intermediate Ratings

21. We are concerned about the definition of the intermediate ratings as currently proposed within the Bill. The FCA has previously consulted about Value for Money ratings. **Industry response to the consultation showed clear consensus that intermediate ratings (previously referred to as amber) should mean delivering Value for Money but the scheme is at risk of not delivering Value for Money. We ask that the definition of the intermate rating is changed to reflect industry consensus.** All schemes who receive this rating should be given two years (with possible extensions if approved by the relevant regulator, i.e. FCA for contract-based schemes and TPR for Master Trusts) in order to improve their ratings before being rated as not delivering Value for Money, and the consequences of this should be as highlighted in the Bill. This would provide all schemes with sufficient time to make necessary improvements, reflecting how the Performance Test works in Australia. It would also avoid the creation of a cliff edge between the ratings which may lead to providers feeling pressured to game the metrics to avoid falling into a lower category. It could also discourage nuanced assessments and continuous improvement, as the focus shifts to avoiding a downgrade rather than genuinely enhancing value.

22. Alternatively, the intermediate rating could be split into no more than two grades in secondary legislation. The first being, as above, delivering Value for Money but with a warning that the scheme is at risk of being rated as 'not delivering'. The second being the intermediate rating as defined currently in the Bill, where schemes face consequences defined above, the scheme has scope for improvement to achieve a 'delivering Value for Money' rating. However, we believe that this option adds more complexity than is needed and could cause confusion for businesses and customers. We therefore favour the simpler three band approach suggested above.

23. We also have concerns around the wording used in the Bill that schemes with an intermediate rating have to ensure that 'no person becomes an employer in relation to the scheme'. **The Bill's wording should be strengthened to make clear what this means. At present it is unclear if schemes rated intermediate are or are not allowed to pitch for new business or onboard new customers previously won when the scheme was rated as delivering Value for Money.** We are in favour of this meaning schemes rated as intermediate are not allowed to pitch for new business but are allowed to on-board new customers previously won when the scheme was rated as deliver Value for Money. Otherwise, intermediate rated schemes would effectively be closed making it more difficult for necessary improvements to be made for the scheme to achieve a Value for Money rating, therefore the scheme will be unable to improve and eventually will face closure.

24. We do not agree with the Bill's proposal which suggests that schemes rated as 'intermediate' are either prohibited from, or permitted to, pitch for new business or onboard new customers previously won when rated as 'delivers Value for Money'. We believe this interpretation is not appropriate for all schemes that may receive an intermediate rating. **A degree of flexibility when deciding consequences should be encouraged through guidance to assessors.** The potential consequences could also lead to providers using non-consent transfer powers to move underperforming schemes into performing defaults, without independent expert review, and not making efforts to improve the under preforming scheme therefore limiting the choice of schemes customers can choose from.

Timeframe

25. The current timeframe poses a real possibility that industry will need to begin system and process builds prior to 2027, so late delivery of secondary legislation in 2026 could impact our ability

to report in 2028. **We would ask that the timeframes are reassessed to allow industry adequate time to prepare for assessments.** Alternatively, this could be mitigated if the first year's reports, could be conducted on a best endeavours basis and with the Government/regulators accepting that some data points may be missing. It is important to note the dependency of other initiatives in the Bill on the Value for Money Framework being implemented on time.

Part 2 – Chapter 2 – Consolidation of Small Pension Pots

26. Phoenix Group is supportive of small pot consolidation and the benefits consolidation will bring to our small pot auto-enrolment customers. However, we are keen that all customers see the benefits of small pots consolidation in a timely manner.

Timeframe and Scope

27. The pensions roadmap published by DWP and HMT states that small pot consolidation will begin in 2030. This puts customers at risk of losing more of their pension pots to scheme charges on multiple small pots and hindering industry in achieving scale. Though not a requirement for the Bill, **we would like to see the 2030 timeline brought forward to benefit pensions savers, industry and support the drive towards scale.**

28. Small pots consolidation would bring customers numerous benefits such as making it easier to manage their pension, lower overall management fees, and giving them access to a wide range of investment options due to a larger pot size and therefore easier retirement planning. **We believe the scope of small pots should be extended to include all pension schemes,** allowing more customers to feel the benefit of small pot consolidation and create more consistency across the industry.

Part 2 – Chapter 3 - Scale and Asset Allocation

29. We support the Government's ambition to drive scale and consolidation of the market by establishing a minimum size main scale default arrangement of at least £25bn by 2030. However, whether this goal could be achieved in time is dependent on the success of wider reforms in the Bill, the details of which are yet to be set out and are subject to secondary legislation.

Definition of 'common investment strategy' for Main Scale Default arrangements

30. The Bill confirms that when measuring the Main Scale Default arrangements (MDSA), Master Trusts can combine with one or more GPP's to create a main scale default arrangement so long as they are 'provided by the same provider' and 'assets are managed under a common investment strategy'. However, as drafted, the meaning of 'common investment strategy' will be determined by regulations which won't be made available until the Bill has received Royal Assent This will create a long period of uncertainty around how Master Trusts will meet the scale tests. It could lead to slower progress towards value and scale as providers 'wait and see' to understand the full implications of a strict definition. We would like to see the definition of a common investment strategy be as broad as possible, covering an MDSA's overarching strategy which may include a range of different funds targeting the same or similar outcome, but delivered with common investment capabilities (where value benefits from scale are most likely available), rather than prescriptive regulations that would require different funds within an MSDA to be merged together. We believe the broad definition will meet the policy aims in terms of scale and value for savers.

Timeframe

31. We believe the minimum size main scale default arrangement deadline of 2030 should be set in guidance rather than primary legislation to avoid unnecessary disruption to qualifying schemes. Providers only have five years until the regulations would come into force, but whether a provider could make the deadline will heavily depend on other reforms' success and will be difficult to be worked out in silos.

Reserve Power on Asset Allocation

32. The Bill gives the Government a reserve power to set minimum targets for schemes that are subject to megafund requirements (£25 billion in AUM) to invest in private assets. We do not believe mandation is the best way to channel more investment into UK equities. Phoenix Group is a signatory to the Mansion House Accord and has committed to invest 10 percent of workplace portfolios in assets that boost the economy such as infrastructure, property and private equity by 2030. Clarity is needed from Government on the asset allocation requirements should the power be used, as this is vital for providers to make strategic asset allocation decisions ahead of time and ensure improved returns for members, particularly given the ambitious timescale of a £25billion MSDA by 2030. As drafted, the Bill does not explain what the 'qualifying assets' are. Clause 28c(5) lists examples of assets (private equity, private debt, venture capital and interests of land) but more clarification from Government on this is needed.

Part 2 – Chapter 4 – Contractual Override

33. Phoenix Group is supportive of the introduction of contractual override for providers of contract-based pensions, something which is already available in the trust-based pensions space. Contractual override enables providers to move more customers to an alternate arrangement if it is in customers' best interests and allows for providers to respond quickly to regulatory updates, market shifts, or changes in scheme design, ensuring customers remain in a competitive pension scheme. This could result in better savings returns for customers due to being transferred into larger, better performing schemes and helps support the drive for scale, a key goal of the Bill. We are keen to see consistency in implementation and availability across all pension products so that all customers can benefit.

Independent Certification from a Provider

34. As drafted in the Bill any transfers because of contractual override will require independent certification from a provider that the transfer is in the best interest of customers. This is the opposite to what applies to Trust-based pensions where the regulations were changed so that no certification was required if the non-consent transfer was to an authorised Master Trust and is a clear inconsistency between Government and FCA in their approach to contractual override.

35. To make the approach more consistent, we recommend the Bill is amended to state that no certificate is required in certain circumstances:

- The bulk fund switch is to the providers mega default fund, or an approved alternative default (e.g. Sharia Solutions)
- The transfer is to another GPP rated as Value for Money by the receiving GPP's IGC (that could be on the current ratings or post VFM changes Green or Amber rated GPP's)
- The transfer is to an authorised Master Trust, where the receiving schemes Trustee has rated it Value for Money

36. In addition, where the circumstances above do not apply, we believe that the certification should apply to pension providers frameworks for making the contractual override decisions rather than each individual transaction. This certification in conjunction with Consumer Duty, would provide the necessary member protections and make the overall process more efficient both in terms of costs and time.

The Best Interests Test

37. The Bill also sets out (clause 117d) a "best interests test" for the circumstances in which contractual override can take place. This refers to either

- "a better outcome for the directly affected members of the scheme (taken as a whole), and
- no worse an outcome for the other members of the scheme (taken as a whole)"

We have concerns around the wording used to describe this test in the Bill and the potential it has to hinder the effectiveness of contractual override. This use of 'best interests' wording for Consumer Duty was previously disregarded by the FCA and is now 'act to deliver good outcomes'. An option in the original FCA consultation was 'act in customers' best interests'. There was consensus in the industry that customer interests were difficult to determine as it implies a more personal approach, whereas 'good outcomes' is more generic. **We urge the Government to reconsider the use of 'best interests' wording and adapt to an approach more in line with the FCA.**

38. We would also like to raise concerns about the use of the term 'a better outcome for the directly affected members of the scheme' as this wording might hinder providers in contractual override to help drive scale and efficiency, one of the main aims of the Bill. If customers can only be moved if they are going to be 'better off', then anyone who will be 'no worse off' ends up remaining in their original contract/investment, hindering providers ability to utilise the scale to continue to improve outcomes for consumers. **We suggest the wording in the Bill be changed to 'a no worse off or better outcome for the directly affected members of the scheme (taken as a whole)'.**

Scope

39. We also believe the scope of contractual override should be extended to include all pension schemes. This will enable providers to move more customers to an alternate arrangement if it is in customers best interests and allows for providers to respond quickly to regulatory updates, market shifts, or changes in scheme design, ensuring customers remain in a competitive pension scheme. **We would like the scope of contractual override amended within the Bill to include all pension products with Government and regulators to set out how they plan to implement this and a timeline for implementation.**

Part 2 – Chapter 5 - Default Pensions Benefit Solution

40. Phoenix Group supports the concept of having a default option for members that provides an income in retirement, but we believe that carve outs and flexibility will be critical.

Importance of Flexibility

41. Providers/schemes need the flexibility to provide a range of defaults and not just one solution so that it fits with the need of their cohorts of members. Forcing a customer with a small pot of less than £10,000 to take a fixed-income product would not be the right outcome for that individual. Given the requirement that "Defaults must be **designed to provide a regular income for life**", a de minimis is needed – we would suggest £5,000 - £10,000.

42. **As much of the detail will be set out in secondary legislation, it is important that providers and schemes receive certainty as soon as possible on the details to enable advance planning of cost mitigations for members. It is important that there are no fundamental shifts in policy direction that would impact existing plans providers have in place.**

Part 4 – Pensions Dashboards

43. The introduction of pensions dashboards has the ability to transform the way that individuals engage with their pension; helping them to plan for their retirement. The Government's dashboard is expected to enter a testing phase later this year, although the launch date of the final service has not yet been announced. Private sector dashboards are expected to follow and could offer more advanced functions like lifetime modelling to further support consumers. However, there is currently no clear plan from the Government regarding how these will be trialed or rolled out.

Timeframe

44**.** Originally scheduled for launch in 2019, the delay to Pensions Dashboards is significant. The public still lacks clarity on when the service will be available. **We urge the Government to publish a clear roadmap for the launch of Pensions Dashboards, especially when private sector dashboards**

can be utilised. The roadmap should also include plans for building technical infrastructure for data exportation and delegated access functions. These will enable development of onward support journeys such as lifetime modelling and potential integration with targeted support, which the Government dashboard is not expected to cover.

45. As a start, the Government should clarify the metrics that will determine the Dashboards Available Point. We propose the following amendment to the Bill which would provide clarity on metrics.

Proposed amendment:
Clause 96, page 97, line 8 insert:
(6) The Pensions Dashboards Regulations 2022 is amended as follows
(7) section 4 subsection 4 (a) leave out from "any matters that the Secretary of State considers are relevant" and insert- metrics *including the completion of connection by most schemes in cohort 1(a) to 1(f), and a satisfactory outcome from the Money and Pensions Service's user testing of its pensions dashboard*

Member's explanatory statement: This amendment will introduce clear metrics for when the Government can decide upon the Dashboards Available Point, giving clarity to dashboards participants and consumers.

Wider Issues to Consider - Pensions Adequacy

46. Phoenix welcomes the Government's recent announcement to relaunch the Pensions Commission to look at the complex reasons that underpin why people are failing to meet their target retirement income and recommend long-term solutions to address this. Our own research shows that over half (54%) of all DC savers retiring between 2025 and 2060 are either not saving enough for the retirement they expect or are on track for an inadequate retirement. This is especially common among those retiring between 2040 and 2044. Millions of people will be on track for disappointment in retirement unless we can take action today. The Commission will specifically look at the outcome of future pensioners through to 2050 and beyond, and report to the Government in 2027 recommending long-term solutions.

Statutory Review into Retirement Adequacy

47. Given the long-term nature of the Commission's scope, further work will likely be needed to see through the implementation of their recommendations. **We believe the Pensions Schemes Bill is an excellent opportunity to insert a requirement for this Government, and any future Government, to conduct a Statutory review into retirement adequacy of the pensions system every five years.** A Statutory review would ensure the implementation of the Pensions Commission's recommendation and retirement adequacy are reviewed within each Parliament, and provide the continuity needed in a trustworthy and sustainable pension system.