Pension Schemes Bill – call for evidence Isio's submission

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isio.

Isio's view

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The House of Commons Public Bill Committee
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This document is Isio's response to the call for evidence on the Pension Schemes Bil, published 5 June 2025.

We (Isio) responded to earlier consultations relating to aspects of the Bill including the consultations on *Options for defined benefit schemes* in April 2024, *Defined Contribution consolidation: Unlocking the UK pensions market for growth* in January 2025 and the *Local Government Pension Scheme (LGPS) Investment: Fit for the future* consultation, also in January 2025.

Our views and responses in this document consider both our earlier responses and the proposals in the Bill following its Second Reading which reflects developments in the Government's objectives since the earlier consultations.

We have set out our overall comments in the 'Isio Response' section of this document. Rather than address each of the Bill's Clauses individually, we have provided our overall comments on the measures at a high level, only addressing specific clauses where we believe they require very specific attention to help them successfully achieve policy objectives.

In our previous consultation responses, we noted that we are in a strong position in the market to comment on the Bill because we operate as a single firm providing a broad range of advisory services to trustee and corporate clients. We work with employers, pension scheme trustees, and public sector advisory bodies to support them in manging their pension arrangements in the most effective way. As such, we operate across the pensions market and are fully supportive of the Government's proposals to "support over 15 million people who save in private-sector pension schemes get better outcomes from their pension assets".

We are optimistic that the successful implementation of the measures to consolidate DC pots and to secure better value investment returns could drive better retirement outcomes for individuals, to supplement previous successful initiatives such as automatic enrolment.

We are very supportive of measures in relation to Guided Retirement as a mechanism for delivering better retirement outcomes for members. Dovetailing these measures with the decumulation only regulations for collective defined contribution schemes has the potential to have a significant impact on improving income levels for members' when they retire.

We would be happy to discuss our response with you or expand on any of the points we have made.

About Isio

Our purpose is to create better outcomes for our clients, our people and society.

We are an industry-leading challenger, providing diverse expertise spanning Pensions, Investment, Benefits and Wealth, giving clients an integrated experience. With a unique mix of trustee and corporate clients, we are grounded in a vision which strives to deliver greater financial confidence for everyone.

Isio was 'born' in 2020 from the sale of KPMG UK's Pension Practice to a private equity firm. We've been working tirelessly to transform our industry ever since.

Known and respected for our agility, harnessing decades of hands-on experience, bold thinking and the desire to push the boundaries of what we can achieve for our clients, from small to blue chip, public to private.

In January 2022, Isio acquired Premier Pensions Management enhancing and extending our service offering to our clients. This was followed by the acquisition in 2023 of Deloitte Total Rewards & Benefits Ltd, positioning Isio as one of the largest pensions advisory businesses in the UK.

Isio has extensive experience of advising employers looking to make contributions to a Master Trust and developing bespoke default funds for those investments within the Master Trusts.

Please feel free to contact us about our response.

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Isio's response

Defined Benefit surplus

In our previous responses we gave our support to initiatives that will enable employers to release investment into their businesses, while paying due attention to the needs of their members.

In relation to defined benefit (DB) schemes, we believe there are strong reasons for making it easier to return surpluses to employers that wish to do this. We support these measures while also welcoming the government's commitment to maintaining stringent funding safeguards to protect member benefits, as well as ensuring that surplus release will remain subject to trustee discretion and actuarial certification.

In relation to appropriate safeguards, we set out our comments in our response to the 'Options for DB Schemes' consultation in April 2024. We are supportive of the overall approach as it enables surplus refunds to be paid through a simple process where funding is above a specified basis – we are supportive of using the low dependency basis for this purpose, which we understand will be set out in regulations.

We can also see a case for further flexibility on the use of surplus – in particular, provided there are suitable safeguards, permitting surpluses in DB schemes to be transferred to other trusts (including Master Trusts) without incurring a tax charge, so that they can fund future pension accrual for employees. This would help to ensure that all employers, regardless of size, can use their DB surplus to fund current employee pension accrual in a straightforward way and without incurring a tax penalty. Further, it would also help to drive consolidation and scale in Master Trusts.

A more specific comment relates on clause 8. Here, it will be important for the new power to override any explicit prohibitions on payments of surplus to employers in scheme rules. We believe that it is the intention of the new Section 36B (3), to be inserted by clause 8, but it is not completely clear to us (as non-lawyers).

Outside the scope of this Bill, but very helpful in making these provisions more workable, would be including measures in a Finance Bill to achieve additional flexibility to make regular lump sum payments to members from surplus without adverse tax consequences (perhaps subject to annual cap). In combination with the surplus refund measures in the Pension Schemes Bill, these changes would likely make investing for surplus by DB schemes more attractive, with a view to sharing surplus between members and employers and may also encourage greater investment in growth assets.

PPF Administration Levy

We welcome the additional flexibilities in relation to pension protection levies, under clause 95, allowing the PPF funding levels to be reflected more accurately in determining the levies required.

However, we would support the abolition of the Administration Levy, especially against the backdrop of a £14bn PPF surplus and the above mentioned legislative flexibilities being introduced for the wider levy.

The Administration Levy currently funds both a proportion of PPF administration costs and the FCF (Fraud Compensation Fund) administration costs. It is understood that the PPF no longer needs the administration levy, indeed the DWP's own departmental review concluded in 2022 that it is no longer needed. PPF administration costs could be covered from the wider protection fund and the FCF admin costs could be met from the FCF fund (and therefore through the FCF levy). We would support amendment to the Pension Schemes Bill to deliver this transfer.

Superfunds

The "Gateway conditions" which are proposed (Clause 58) for transfers to a Superfund are noticeably weaker than those proposed in the 2023 consultation which would make approval for transfers simpler to obtain. While it will need careful structuring so that it does not allow the manipulation of funding levels to manufacture a deficit for the financial position test, assuming this is possible, the proposed Gateway conditions could steer more schemes to consider superfunds rather than insurers.

We believe Parliament should have greater opportunity to explore if its intention is to relax the gateway conditions and to allow those that could explore insurance buyout to utilise superfunds instead. In our view, it should be for trustees to determine which course of action is most appropriate for their scheme.

DC consolidation – mandation

Overall, we support the drive to invest more in the UK economy and believe there are attractive investment opportunities. However, the reserve power to mandate investment in private market assets at section 28C is one of the very few parts of the Pension Schemes Bill that Isio does not support. We urge that the mandation power should be removed from the Bill.

Provided there are attractive UK investments, pension schemes will invest in them. If those assets do not exist and mandating requires schemes to select less attractive investments, there are obvious drawbacks. As such, the mandation power overreaches into fiduciary duties, blurring responsibility for asset allocation. A more effective way of generating domestic investment would be by providing tax incentives which allow trustees to take advantage of them when the opportunity is appealing.

There are arguments about whether to mandate or not mandate but having the mere threat of mandation, is widely viewed as combining the worst of both worlds.

Creating such a power raises more questions than it answers – not least who is legally accountable for underperformance and how will the assets that are within scope be determined. It also risks having a negative effect on market pricing, undermining both market and public confidence and thereby eroding trust in the current system of pensions saving by fuelling doubts as to whether saver returns are pension schemes' main priority.

Isio believes that the adoption of the Mansion House Accord reflects broad support by the industry for investment in growth assets and that forcing funds to invest in specific segments of the market risks creating inefficiencies (for example, by bidding up prices if a significant amount of capital is required to be invested in a limited number of opportunities with a fixed timeline).

DC consolidation – minimum assets under management

Isio supports plans to invest more in the UK and to improve investment returns on members' behalf. However, we remain unconvinced that setting a minimum pension fund of £25 billion AUM will drive this behaviour.

Scale does provide advantages when it comes to investing, and the benefits of being able to properly join investment with engagement and post-retirement through a Master Trust has the potential to make an attractive combination. However, we would challenge the government on their linkage of a credible long-term vehicle for DC pension savings to an asset value as large as £25bn. We believe that single employer trusts of much smaller size can credibly invest in private markets and that you do not have to be invested in a Master Trust to do this effectively.

As the push for consolidation continues, single employer trusts are likely to reduce in number going forward. However, we expect there will continue to be a long tail of medium to larger trust-based schemes that if governed effectively can deliver as good as a solution (if not better in some cases) than a commercial Master Trust.

The transition pathway for schemes that have more than £10 billion but less than £25 billion in their main default arrangement will be introduced from 2030. This appears to require these schemes to be at £10 billion at this point, but it may make the introduction of the pathway smoother if the ability to confirm they have reached the £10 billion level is available sooner to avoid further market disruption.

DC consolidation – Small pots

Isio supports plans to tackle the growing issue of deferred small pots of £1,000 or less, but we would urge that the transferring trustees be given a statutory discharge where making automatic transfers in line with the legislation.

Contractual override

We welcome the proposals to allow for contractual overrides to allow amendments to terms, changes to investments and transfers.

We would welcome greater clarity from Parliament on how providers should satisfy the "best interests test" and what role the independent certifier of this test should have. We would also welcome clarity on any potential liability they may have and how providers should compare the protections afforded members of occupational schemes compare to those provided by the FCA's Consumer Duty.

Guided Retirement

Isio supports the objective of ensuring that individuals saving in DC schemes have an income in retirement through default/guided retirement solutions.

The Guided Retirement measures will provide valuable support to many people who are unsure how to make the best use of their DC savings at retirement. Our research has found that people often struggle to know how best to convert their pension pots into income and guided retirement provides an excellent opportunity to provide them with a pragmatic default option.

When faced with a range of possibilities at the decumulation stage, it is too easy for individuals to drift into drawdown without a plan. They can then end up burning through their savings too quickly and end up relying solely on the Basic State Pension, or going without, underspending and failing to make good use their hard-earned funds, Where individuals do take action in retirement, they often transfer funds to the retail market, making it much less likely that they will invest as efficiently during their retirement phase compared to the accumulation phase.

We think it will be extremely helpful to individuals to have trustees identify a default route thought this conundrum. Trustees will be well-placed to determine a solution that is suitable for a majority of their members, indeed for larger schemes, multiple defaults following some initial screening may provide a more nuanced alternative. While creating an income for life might appear to mean buying an annuity, it seems more likely that trustees would opt for drawdown options in earlier years before moving to a position to buy an annuity at a later date through flex and fix approaches or deferred annuities. Giving people these options will still require their sign up as bank details will be needed, but it should remove the paralysis that often comes from not knowing where to start.

Providing members a default option can act as a starting point for them to engage with the opportunities available and do not preclude them from taking a different route, e.g. if they do engage with MAPS or take independent financial advice.

We do have some concerns in relation to the proposed timing for implementing this measure. We think that the decumulation collective defined contribution (D-CDC) has the potential to play a huge role as a default solution, and it is essential that D-CDC should be available to trustees when making their initial guided retirement decisions.

We believe that the timescales for introducing guided retirement should be pushed back to align the introduction of D-CDC regulations, guidance and authorisation. It is critical for the success of the launch of D-CDC solutions in the UK for these to available as a guided retirement option. Trustees are unlikely to want to revisit the default solutions they develop regularly, so if D-CDC is not available when they first look to comply, then it will be years before it would ever be considered again.

The anticipated legislation enabling decumulation-only Collective Money Purchase schemes (or 'D-CDC' schemes) to be established would give trustees a valuable extra default pension benefit solution to choose from. A menu of options which includes D-CDC schemes would meet the general policy intent of facilitating a stable lifetime pension income from money purchase benefits whilst enabling continued investment in productive assets. It is therefore important that the legislation needed for D-CDC be published soon, enabling such schemes to be set up and be operational, before trustees are required to select a default retirement solution.

We understand that it may not be appropriate to convert smaller pots into an income, but we hope that the consolidation overseen by the Bill will reduce the number of such arrangements. Trustees should have the opportunity to tailor their solutions to individuals who wish to make use of phased retirement.

Requiring schemes to secure an income in retirement will have an impact on investment strategies that underpin such incomes, and this may reduce demand for longer-term growth assets, which is one of the Government's key objectives. If D-CDC can be launched at the same time, then this should provide for a virtuous circle of more assets being available for growth assets.

The Bill requires, trustees to request additional information about a member's financial circumstances and retirement planning. This would inevitably involve the receipt of special category personal data for some members, e.g.
(i) information about the member's health which is relevant to longevity; and
(ii) information about the member's relationships which is relevant to survivor benefits.

The Bill should include an amendment to data protection legislation to allow trustees to obtain and process this information for the purposes of providing decumulation services without requiring express consent from the member (this type of easement already exists for certain insurance and employment obligations, for example).

LGPS Pooling – investment powers

The Bill contains a major restructuring of investments for the local government pension scheme (LGPS).

This represents significant change in the approach for funds and pools relative to the current operations, with the pools taking on material functions (investment strategy advice, delegated investment management etc) which many of them have not provided in the past. This will require significant resourcing and the risks that come with establishing new business lines, working to tight timescales.

We welcome the clarity that will see local authority funds having responsibility for setting the strategy, whilst responsibility for implementing the strategy will be with the pools. Funds will also be required to co-operate with local strategic authorities to identify and develop appropriate investment opportunities.

Isio supports the specific governance reforms, including conducting governance reviews every three years, aligned to the scheme's valuation cycle.

However, we have reservations about the measures in the Bill to give Government the power to direct funds to participate in specific pools and to direct where pools invest. We are not convinced that Government should be taking these powers. Pools should be investing in line with the investment approach set out by their underlying asset owners, in order to deliver against LGPS funds fiduciary duties. The Government should not take powers that would erode fiduciary duty by directing investment within pools.

LGPS pooling – local investments

The Bill defines "local investments" as being "for the benefit of people living or working" in either a fund's area or the area of the fund's pool. Under the LGPS's new fiduciary management model, the pools will have to make investment decisions about local investments – where to invest and what to invest in. As we mention in relation to Investment powers, this is a significant change of approach as the pools are not currently set up for this and it is a specialist investment area – they will need to add experts to help them execute the change in approach.

The funds need to set their local investment strategy and scour their locality for opportunities to help the pools meet their strategy. Our paper covers this issue in greater detail: [LGPS: why local investments might not be local enough](#).

The proposed approach to local investments in the Bill could lead to some unfairness, perceptions of favouritism and potential conflicts. While employers and their funds are not generally engaged in ongoing investment matters and so this may be considered to be low risk, it seems likely that this will change as the government's requirements take shape and there is more local investment activity. It seems likely that as visibility increases more concerns might arise. The Bill should be amended to ensure an employer specific local investment approach is considered.

The Bill omits reference to employers for whom the LGPS provides benefits and whose ringfenced assets make up each fund. It does not address concerns around the needs of employers and the management of surpluses. There is a risk that increased pooling could lead to poorer outcomes for some employers, even as others benefit.

Whilst pooling builds scale, efficiency and investment opportunity, the LGPS is made up of nearly 20,000 employers with differing funding levels and circumstances. In order to ensure the best outcomes pools will need to look through their funds to the employers they provide investment returns for, especially with many employers having surplus assets.

By their very nature they make significant contributions to local communities. Local authorities being the main and most obvious example. Individual employer investment strategies are now required to support employers with managing their surpluses to ensure the LGPS continues to deliver value for money. It follows that employers could also have an individual investment for another reason – to invest locally.

We would like to see the Bill being adapted, along with subsequent regulations and guidance, to clearly recognise and facilitate this solution.

LGPS Pooling – governance changes

The changes create a new world of Fiduciary Management oversight which will need to be carefully managed and the many practical issues around this still need to be worked through.

Clause 4 of the Bill sets out proposed governance changes including a power allowing the Secretary of State to make regulations in relation to the LGPS in relation to carrying out "periodic or ad hoc governance reviews of individual scheme managers" (funds), issuing statutory guidance about carrying them out and how the government responds to the outcome.

The framework provisions in the Bill are the bare bones of the governance reforms the government is intending to make, being the only governance changes that require primary legislation. The government's intention to proceed with the changes implementing the SAB's 2021 Good Governance recommendations (appointment of a senior LGPS officer with overall delegated responsibility for the fund, and new requirements for knowledge and training for those managing the fund) with the aim the framework will be in place for the 2026/27 scheme year. While we support these measures, it is important that they be implemented in a measured and deliverable timeframe.

We understand the government will be working with both the SAB and the Pensions Regulator to develop the detail of the review requirements which and will be set out in statutory guidance. Carrying out the periodic reviews on a triennial basis rather than once every two years is a welcome response to consultation feedback.

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