

Government previews its pensions plans in three major papers



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Introduction

As part of the Government's policy of having "fewer, bigger, better run schemes" that can "deliver better returns" and "boost investment in the UK", three major pensions papers landed today. Alongside the highly anticipated consultation responses on [Options for DB schemes](#) and [Unlocking the UK pensions market for growth](#), the [Pensions investment review – final report](#) ("the Report") was also published.

Key points

DB options response

- Subject to "stringent funding safeguards", the Government is pressing ahead with plans to give trustees power to pass a resolution amending their scheme rules to allow surplus extraction.
- Section 251 of the PA04, which required trustees of pre A-Day schemes to pass a resolution prior to 6 April 2016 so as to keep certain surplus powers, will be repealed.
- Against the backdrop of potential high costs and moral hazard concerns, proposals have been dropped for a 100% PPF underpin in return for payment of a "super levy" for those going down the surplus extraction route. However, the Government will continue to explore the viability of a public consolidator.

Unlocking the UK pensions market for growth

- The Government will legislate through the Pension Schemes Bill ("the Bill") to require that DC providers and master trusts have £25bn in assets under management ("AUM") in at least one large "Megafund" default arrangement by 2030. Creation of new default arrangements will also be restricted.
- Single employer trusts, CDC schemes and hybrid schemes which are only available to a closed group of employers related through their industry or profession, as well as default arrangements that serve protected characteristics such as religion, will be excluded from the Megafund requirements.
- Seeking to address the "significant barrier to consolidation" posed by the requirement for contract-based pension providers to get individual consents before transferring members to another arrangement, the consultation also proposes measures to enable a contractual override, subject to appropriate protections.

Pensions investment review

- Although the Government has “concluded that it is not necessary currently to mandate” baseline investment targets, it will include a reserve power in the Bill.
- Ahead of disclosure under the new VFM requirements becoming available, TPR and the FCA have decided to launch a joint market-wide data collection exercise later this year, which will include asset allocation information in workplace DC schemes.
- The Government has “brought forward reforms to reduce fragmentation in the LGPS”. As well as “improvements to pooling, governance and administration” the intention is to “see the LGPS use its scale to support UK investment and regional growth”.

DB surplus

Subject to certain safeguards, the Government is pressing ahead with plans to “unblock” regulatory obstacles to releasing DB surpluses back to businesses and scheme members. Key highlights include that:

- the proposed power will allow a resolution to be passed amending scheme rules, as opposed to a direct statutory power to pay surplus which was the alternative option put forward in the original [consultation](#)
- subject to actuarial certification, this power will be exercisable at trustees’ discretion, as they “remain best placed to make decisions in the context of their individual scheme circumstances and their duties to scheme beneficiaries”
- unsurprisingly, there will be “stringent funding safeguards”. But the Government is “minded to amend the threshold” at which trustees can share surplus with sponsoring employers, from the current buy-out level to fully funded on the low dependency funding basis. This downwards shift will bring additional surplus into scope for potential extraction, “while maintaining a sufficiently prudent approach”. It will also bring into play the role of covenant and its interplay with low dependency as part of any deal between trustees and employers on surplus
- legislation currently requires trustees to be satisfied that extracting surplus is “in the interests” of members. Recognising that it is unclear how this fits with trustees’ general obligations to safeguard member interests when making decisions (ie under trusts and case law), the Government will amend the legislation to confirm that “trustees must act in accordance with their overarching duties to scheme beneficiaries”
- the Government will continue to consider “the merits of a statutory power allowing for direct payments to members”, ie by adding a new authorised payment so as to free up schemes to share surplus with members without baking in long-term liabilities
- as things stand, the tax payable on any surplus extracted will remain at 25%, although the Government is keeping “the wider tax regime for surplus extraction” under review
- with feedback suggesting that guidance is required “to facilitate trustee comfort”, the Government will work with TPR to develop this. This will also “reference a suite of options open to trustees to bring benefits to members from surplus sharing”. It will be important for this guidance to recognise the well-established body of case law surrounding distribution of surplus and the exercise of trustee duties (see our [Hot Topic](#)).

Unlocking the UK pensions market for growth

Achieving scale in the DC market

In its [consultation](#), the Government sought views on the benefits and challenges of setting a minimum size requirement for AUM and restricting the number of default funds. Having listened to the responses, it has concluded that applying scale requirements at a default arrangement level is key to being able to utilise the benefits that scale can bring. It therefore proposes:

- subject to certain exclusions (see Key points above), requiring providers / master trusts to have at least £25bn in AUM in “a main scale default arrangement” by 2030. The definition will be refined through engagement with the industry, including a formal consultation
- providing a transition pathway to allow additional time for certain smaller schemes to reach scale. To be eligible, the provider / master trust will have to demonstrate that they will have at least £10bn in AUM in an arrangement by 2030, and to have a “credible plan” for reaching £25bn in AUM by 2035
- to legislate to require providers / master trusts to demonstrate that they have, or are building in the case of those on the transition pathway, an investment capability commensurate with their scale
- preventing new default arrangements from being created and operated, except in certain circumstances with regulatory approval. However, no maximum number of default arrangements or funds will be set for any given DC scheme.

Alongside the scale requirements, the Government will also provide for a “new entrant” pathway. This will allow new market entrants with innovative products to seek authorisation, where they are offering something significantly different that could benefit savers or employers and have plans to reach scale in the longer term.

Contractual override

The Bill will introduce a contractual override regime for the contract-based market, helping schemes to consolidate more easily. Broadly, an override will only be permitted where it is in savers’ best interests and certified by an independent expert. Where savers are bulk transferred internally, it must be into the provider’s arrangement offering the best value. Objective metrics will need to be used to make these decisions, including those obtained through the new VFM framework.

Detailed rules on the use of the new regime will be developed by the FCA.

Further measures to address fragmentation

While the Government expects the new override regime and VFM framework to reduce fragmentation and the number of poor value funds, it intends to undertake an assessment in 2029 of the market impact and operation of these measures. Its purpose will be to examine the reasons why any default arrangements are continuing to operate outside main scale default arrangements. The Government is therefore planning to have a legislative underpin to allow it to tackle any remaining fragmentation as needed.

Cost vs Value – the role of employers and advisers

According to the Report, the evidence and consensus in the consultation feedback clearly indicates that the DC pensions market is operating with an excessively narrow focus on cost. However, having explored whether action could be taken in relation to employers and advisers in order to shift focus towards value, given the new VFM framework, the Government has decided not to regulate in this area.

Pensions investment review

Investment in UK plc

The aim here is to enhance the investment options available to DC pension providers and enable more comprehensive investment across a wider array of asset classes. Since the [Interim Report](#) back in November 2024, the Government welcomed the signing of the [Mansion House Accord](#) in May this year. Under the Accord, 17 of the largest DC pension providers have voluntarily committed to invest 10% of their main default funds in private markets, including 5% specifically in the UK. Consequently, the Government has “concluded that it is not necessary currently to mandate investment” targets.

Instead, the Bill will include a reserve power that will, if necessary, enable the Government to set “quantitative baseline targets for pension schemes to invest in a broader range of private assets, including in the UK, for the benefit of savers and for the economy”. The Government does not anticipate exercising this power unless the industry, following the Mansion House Accord, has not achieved the desired changes on its own. Any decision to intervene in this way would also only be made after a thorough assessment of the potential impacts on both savers and economic growth.

Asset allocation transparency

In order to monitor the impact of the scale and consolidation reforms on investment, the Government needs access to relevant and reliable data. Once in force, the new VFM framework will require extensive public disclosures by pension providers. But the current legislative timeline indicates that the first of these disclosures will not materialise until 2028.

In the interim, TPR and the FCA will [launch](#) a joint market-wide collection exercise later this year, to include data in relation to workplace DC schemes. The intention is for this to run annually until VFM data is available, with the first report available in early 2026.

Boosting growth

The various proposals being put forward are designed to enhance “access to domestic capital for the most promising, high-growth UK companies”, improving the UK’s appeal as a place to start, scale up, and build a robust pipeline for firms eligible for public listing in the future.

Next steps

With the Bill due for publication in the coming weeks, we can expect regulations and guidance to follow, helping to flesh out much of the detail. Whilst the Report signifies the end of the pensions investment review, it is one part of a broader strategy, with the Pensions Minister promising a roadmap “in due course” to help support the industry through a time of significant change.

Today’s publications therefore merely mark the start of some very major pensions reforms and a hectic summer ahead.