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# PENSION SCHEMES BILL PUBLISHED

On 5 June, the Government published the Pension Schemes Bill. The Bill aims to tackle fragmentation, boost investment, increase saver returns, address waste across the defined contribution (DC) workplace pensions market and the Local Government Pension Scheme (LGPS) and allow additional flexibility for the extraction of a DB surplus.

The Bill reflects the Government's strategy for improving UK pension funds by focussing on scale and consolidation and providing for more investment in the UK economy through pension schemes.

The clear message is bigger and better pension funds drive higher returns for savers and higher investment for Britain.

## HERE'S OUR SUMMARY OF THE GOVERNMENT'S PLAN:

+ **The dawn of the £25 bn DC scheme:** Building on recent market consolidation, providers and master trusts of multi-employer DC schemes will be required to have £25 billion in assets under management (AUM) by 2030 (i.e., one main default arrangement in a scheme must meet this requirement). Smaller providers with £10 billion AUM in 2030 can opt to extend the

deadline to 2035 and a special 'new entrant' pathway will also be developed to allow the launch of innovative products and maintain a competitive market.

+ **More consolidation – the contractual override:** A contractual override regime will consolidate underperforming and legacy contract-based arrangements. Strong consumer safeguards will also be included: for example, a transfer will only be permitted where it is in the savers' best interests, as certified by an independent expert. The Financial Conduct Authority (FCA) will develop detailed rules governing the regime.

The Bill introduces the ability for small dormant pots under £1000 to be swept into consolidated schemes. Further regulations will be required to achieve this.

+ **Focus on value not cost:** The new Value for Money Framework (VFM) will provide a consistent disclosure regime for providers and a publicly available range of data and metrics of scheme quality, which will be wider than just cost. It will include investment performance to show consistency of returns over time. The aim is that the VFM will support consolidation by allowing providers to transfer members into best performing DC arrangements, delivering value and considering the full range of asset classes. Progress on this initiative will be reviewed in 2029.



- + **DC Scheme investment:** The belief is that larger schemes will invest in more diverse asset classes. Diverse investment will not however be mandated. Following the Mansion House Accord in which 17 of the largest DC providers agreed to invest 10% of their main default funds in private markets (5% of which in the UK) the Government is content, for now, to include only a reserve power enabling it to set quantitative baseline targets for investment in a broader range of private assets if necessary.
- + **LGPS – asset pooling and local investment:** These will be six pooled investment companies set up to manage funds of the LGPS from March 2026, which are expected to grow to £1 trillion by 2040. There will a duty to consider local investment and new governance requirements will also apply.
- + **Investment opportunities:** Reforms to planning, regulation and infrastructure delivery are all being introduced to create more investible opportunities in housing, transport, energy, and growth sectors. The new National Wealth Fund and the British Business Bank will also support investment in strategic sectors and enable pension funds to channel capital to fund UK growth.

- + **Defined Benefit surplus:** The bill includes:
  - + a statutory resolution power to modify scheme rules to allow for surplus sharing;
  - + removal of the requirement to have passed a section 251 resolution to refund surplus; and
  - + a reduction in the threshold required to extract surplus; the scheme will no longer need to be overfunded on a buy-out basis to allow for surplus extraction, and instead full funding on a low dependency funding basis will be sufficient.

As the DWP does not intend to mandate how extracted surplus is used, this will remain subject to negotiation between trustees and sponsoring employers. The consultation response does note the possibility of direct payments to members using surplus monies and the DWP will consider whether to introduce a statutory power to allow for this.

In the February 2024 consultation, the DWP suggested that schemes could opt to pay a higher "super levy" to the PPF in return for 100% coverage of scheme liabilities in the event a scheme entered the PPF. However, the DWP has concluded that this underpin would be unaffordable to most schemes and may create moral hazard issues.

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